

BANKING AND COMMERCE

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Banking and Commerce

A PRACTICAL TREATISE FOR BANKERS AND MEN OF
BUSINESS, TOGETHER WITH THE AUTHOR'S
EXPERIENCES OF BANKING LIFE IN
ENGLAND AND CANADA DURING FIFTY YEARS

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Experientia docet

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INTRODUCTION.

THE following work is the reflection of a banking and commercial experience extending over more than forty years of active life in England and Canada, together with the observations gained in the supervision of the New York business of one of the larger Canadian Banks established in that centre.

This treatise, it will be observed, relates not simply to banking, like the practical work of Mr. Gilbart, or the scientific treatise of a political economist like McLeod, but covers also the field of commercial and manufacturing operations as well, and discusses the causes of success, or failure, in each of them.

The author has taken particular pains to open up the relation of Banking to Commerce, as a handmaid and tributary to it, and this, as distinguished from other modes of employing and investing money; and has endeavored to show the danger of confounding the functions of a banker with those of a capitalist, or a Loan Company, whose sphere is found in the lending of money on mortgage, or the undertaking of loans for long periods to governments or corporations.

It was long ago observed that a large part of the art of banking consisted in knowing the difference between a bill of exchange and a mortgage.

Simple as this may sound, it opens up a whole world of interesting study; and to become thoroughly master of it, in its practical application, has baffled the ability of many a man otherwise eminent in the sphere of finance. And the failure to carry out this distinction in practice has involved many an institution of these times in financial overthrow. All this will be considered in the course of the work now submitted, and as the author has largely drawn from his own experience and observation, he thinks it may be well to say a few words about them.

Commencing his banking career in one of the joint-stock banks of the north of England, having its centre in a large manufacturing town, with branches in the agricultural district around, the author became familiar with representatives of nearly every class of the producing community of England.

This bank, in which he served for nearly eleven years, was founded by men of remarkable intelligence and ability, who had studied the principles on which banking should be conducted, and carried them into effect so judiciously, that the bank has had an uninterrupted career of prosperity since its foundation, and is still well known as one of the best-managed banks in England.

In course of time, and after some years' experience in a large business

office, he entered the service of one of the chartered banks of Canada, and there, first as Branch Manager and then as Cashier (a term equivalent, in Canada, to general manager), he was brought into contact with the agriculturists, merchants and manufacturers of the Dominion, all which prepared him for the larger sphere to which, in the providence of God, he was afterwards called, viz., to the general managership of one of the larger banks of Canada whose business extends over nearly every district of the country, from the Atlantic to the Pacific. These larger banks all have offices in New York, and, in connection with the New York Agency, the author became familiar with the various classes of business carried on by foreign banks in that city.

NOTE CIRCULATION.

While engaged in the first of these spheres of work in Canada, the Government of the day, under the guidance of its Finance Minister, endeavored to change the basis of the note circulation. The change proposed was in furtherance of a certain theory of note issues, which he had adopted. The plan proposed would have met the pressing necessities of the Government at the time, but it would seriously have crippled the power of the banks to carry on the business of the agricultural districts of the country. As it was in one of these that the business of the bank he was then connected with was mainly done, he made strenuous efforts, along with others similarly situated, to induce the Government to modify its scheme, in so far as to permit the banks, under regulations, to continue to circulate their own notes. These measures compelled a close study of the whole question of note circulation, and the author was drawn into taking a prominent part in the discussions that arose respecting it. His opinions gradually took the shape of doubt as to the desirability of any Government issuing notes for circulation; all such notes, in every country of the world where they were issued, even in the United States, being at that time at a heavy discount. The Canadian Government, however, was too strong to permit of its hands being tied in the matter, and a system of Government issues was established, under very strict regulations as to redemption, which has continued to work side by side with the banking issues of the country ever since.

After some years, an attempt was made by the Government to assimilate the circulation of Canada to that of the United States. The bankers doing business in the agricultural districts saw, however, that such a system would be inimical to their interests and those of their customers, and in fact to the interests of the country generally. They therefore united in an informal association, of which the author became secretary, to oppose the measure. The discussions that arose, and which were taken up by Boards of Trade throughout the country, were continued through several sessions of Parliament, but ultimately, under the auspices of another Finance Minister, a compromise was effected, and a measure

adopted which in its main features has continued to be the banking law of Canada to this day.*

BANKRUPTCY.

The manner in which debtors that are insolvent, or supposed to be so, can settle with their creditors, is a matter of vital importance to bankers, inasmuch as a large part of their assets consists of the personal obligations of persons engaged in business, some of whom from time to time may find themselves unable to discharge those obligations. At one period of the author's experience in Canada, the Bankruptcy Law was of such a nature, and so administered, as to form a positive temptation to traders in temporary embarrassment.

The times that were passing over the country were such as to make trading difficult, and as one insolvency almost invariably gives rise to others, the number and amount of yearly insolvencies rose to amounts far beyond the average. It is vain to expect that at any time, even the most prosperous, trading can be conducted without insolvencies at all, but there is a law of average in this matter as in others, and the fluctuations of insolvencies reflect very fairly the conditions of trade at any particular period. At the period spoken of insolvencies were so numerous as to become a constant source of anxiety to all the banks of the country, and the evil was being constantly aggravated by the development of a class of insolvency agents who made it their business to assist insolvents to obtain settlements under the Act; and many of whom became, almost in spite of themselves, promoters of insolvency. The Bankruptcy Act of Canada, at that time, was looked upon by most bankers as really calculated to promote insolvency rather than otherwise. In these circumstances both bankers and all the large traders who gave credit to customers were quite willing to allow the act to expire, by efflux of time, and rather to endure the evils of having no bankruptcy law at all, than face the pos-

* During these discussions several proposals were made by the banks to the Government with a view to further securing their note issues. Of these the most important was that all such issues should form a preferential charge upon the whole assets of the issuing bank, including the double liability of stockholders. This they contended was just and equitable, inasmuch as noteholders are involuntary creditors.

The other proposal was that a Redemption Fund should be created by pro rata contributions from the banks, which fund, if impaired, should be made up by further contributions. Some bankers considered this fund to be unnecessary, as the privileged lien, in their opinion, would be amply sufficient. They were willing, however, to fall in with the idea of a redemption fund, as it would make assurance doubly sure. Both these proposals were adopted by Parliament. Experience, however, has demonstrated that the privileged lien was sufficient; for although there have been several bad failures since the fund was created, arising from fraud or serious mismanagement, the assets have never failed to redeem the notes with sufficient promptitude to prevent necessity for calling upon the fund. It therefore remains intact to this day.

It only remains to be stated that the whole business of issuing, redeeming and destroying notes in Canada has been placed under the supervision of the Bankers' Association, which was created a Corporation for the purpose.

sibility of a recurrence of the evils that had so sorely troubled them for years back.

But after a time a new crop of evils sprung up, and grew to such a height and extent that wholesale traders and bankers became urgent in their demands for the passing of a new law. Men failed and gave preferences to relations and favored creditors to such an amount as to work flagrant injustice to the rest of their creditors, and the law afforded no redress.

Men went on trading after they were insolvent and frittered away their whole estate, while their creditors were powerless to stop them. They could thus go on buying goods while there was no prospect of paying for them, and in other ways committing grievous trade wrongs, of which the ordinary law took no cognizance.

The Bankers' Association, under these circumstances, had full discussions of the whole matter, and considered what the provisions of an equitable law of bankruptcy should be. There was little difference of opinion upon the subject, and they arrived at conclusions which were in due time communicated to the Government of the day. The ideas embodied in these conclusions will be found largely reflected in the chapter on Bankruptcy.

It will be observed that this work has been chiefly written from a Canadian standpoint. This was inevitable, seeing that the author drew so largely from his own experience and observation, as any author must do whose work is of a practical character. Thus Mr. Gilbert's able work is written from the standpoint of London, and reflects largely a London banker's ideas on the subject. That excellent little treatise called "The Country Banker" gives the views of a banker from the country districts of England. The author, however, though writing in Canada and from that standpoint, has endeavored to avoid a narrow and partial view of both banking and commerce, and has founded his remarks on the broad principles which are common to both of them everywhere. He therefore confidently hopes that the work may be found a useful handbook to bankers and merchants in every part of the country to which it may find its way.

After a life of business activity protracted beyond the usual course of human affairs, he now, in retirement, is able to look back quietly upon the activities and conflicts of former years, and can sympathize with a new generation who are fighting their way, with varied success, through the same conditions and circumstances. He has written this work largely for their guidance; and not for theirs only, but for the guidance of their customers; for he has stood on both sides of the counter in his time. He has felt more than once at the end of a bank year, but especially when a General Manager, as if he had just concluded a voyage round the world, and was thankful to have brought his vessel once more safe into port.

In these voyages (to pursue the simile) he had the opportunity of noting the shoals and quicksands that lay in the way, and of noting also the indications of the weather, so as to look out for coming storms and learn when it was necessary to take in sail, and when he might spread his sail to the breeze with safety. He thus, in course of time, accumulated a body of signs and indications of which he frequently availed himself. All this he has endeavored to embody in a readable form in this treatise, which he now sends forth, with the hope that it may serve for the guidance of men who are pursuing a course in which many difficulties and dangers have to be encountered, but which may be safely followed if men are only willing to learn by the experience of others, and to give close attention, hour by hour, as the mariner does to his compass, to the aspect of things around them. It is a course, in truth, in which many have been shipwrecked, but the shipwreck has generally arisen from inattention, from conceit, from unwillingness to take advice, and learn by the experience of those who have gone before them.

GEO. HAGUE.

MONTREAL, March, 1908.

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A Practical Treatise on Banking and Commerce.

CHAPTER I.

ELEMENTARY PRINCIPLES OF BANKING.

A BANKER'S SERVICE TO THE COMMUNITY—DEVELOPMENT OF MODERN BANKING—EMPLOYMENT OF A BANK'S FUNDS—RELATIONS BETWEEN THE BANKER AND THE MERCHANT.

EVERY man who expects to derive his subsistence from a community will find himself under obligation to render service thereto. This is a universal law of civilized life, in default of obedience to which another law will come into operation, viz., that if a man will not work, neither shall he eat.¹

A BANKER'S SERVICE TO THE COMMUNITY.

Service to a community is of various kinds, depending generally upon the inclination of the individual. Some men devote themselves to *production* in one or other of its manifold forms; a class of service that comes first in order of time in every community, but survives in the most advanced stage of development. Others devote themselves to *selling* what others produce. Others to the work of *transportation* by land or water. These are all departments of what is generally known as *business*. They are all forms of that labor which brings profit, and are all to be found in those rudimentary stages of a community with which the people of Canada and the United States are familiar. Long before there is any requirement for the services of a person whose business it is to take care of money, and to deal in it, there has been some progress made in the clearing or preparation of land; in making roads, in building houses, and also in the carrying on, in a rudimentary form, of farming, store-keeping, logging, and other handicrafts. In addition to this, there generally arises

¹ It might be supposed that the class of wealthy men, and men of leisure, who gradually arise in a more advanced stage of society would be an exception under all circumstances to the above remark. But, as a matter of fact, there are but few members of this class who do not devote more or less time to gratuitous service for the community they live in. In England, they serve as unpaid Magistrates, Members of Parliament, and Guardians of the poor, as well as in numerous forms of benevolent activity. On this Continent, the larger part of such men devote time to church and benevolent work, sitting on numerous boards and committees, undertaking treasurerships, and various other unpaid but useful offices. In fact, if the services of our leisure class were to be estimated on a commercial basis, it would amount to a sum that would startle the most capricious objectors.

the class of professional men who make or administer law, cure diseases, or care for the spiritual interests of the people.

For the first few years, a very small supply of actual money suffices an infant community in the conduct of its business. Barter in various forms is the ordinary medium of exchange. So many yards of cotton for so many bushels of wheat; so much of nets or ammunition for so many fish or skins. This and such-like modes of making exchanges serve all the practical purposes of life, and at this stage of development all wealth, roughly speaking, consists of land, houses, or goods.

But as time goes on, Money in the shape of notes or coin finds its way to the community; and one man after another who prospers in his affairs comes to have more or less of it.

When, from such simple rudiments as a blacksmith's smithy, a store, a grist and carding mill, and a tavern, at some crossroads of the olden time, or a railway station of the present, there has grown up an aggregation of such concerns, some of them in a well-developed form; and when, all round about, the forest or prairie has been converted into productive farms, sufficient money will generally have been accumulated to give rise to the question, *Who is to take care of it?* The answer to this question opens up another class of service; that, namely, rendered by a person who has for generations been known as A BANKER. This being understood, let us enquire under what conditions any man is likely to undertake that service, and how he is to be remunerated for it?

DEVELOPMENT OF MODERN BANKING.

Putting aside, at present, considerations as to the origin of corporations like the Bank of England and the Bank of Scotland, it will be interesting to note how the simple function of taking care of the spare money of a man's neighbors, gradually assumed, one after another, the complicated forms of modern banking.

The first "banker" (if he may be so called at this stage) is usually one of those prosperous men of business who are to be found in every community, and whose store, warehouse, or factory is known to everybody in it. All his surroundings suggest that he is a man of means. He is also a man of reputation. He has had money dealings with his neighbors, and all respect and trust him. He has money of his own, and has a strong box or chest in which to place it, as everybody knows. What more natural, then, than that he shall be asked to take care of the money of his neighbors, as well as his own?

Some of the more cautious ones will, indeed, never trust their money out of their own possession. Some do not want it to be known that they have money at all. The secretive instinct prevails everywhere, and is to be found even in these days of highly developed banking. The failure of a banking corporation or of a private banker, even now, invariably drives some people back to the rudimentary stage of taking care of their own money. In this, however, they encounter another danger, viz., that their

money may be *stolen*. The majority of the people, however, in our infant communities, are willing to trust their money to the care of a wealthy neighbor. In most cases, they will expect it to be as much at their command as if it was locked up in a cupboard of their own. In some cases, however, they may consent to give notice of withdrawal.

Thus, at the very outset, we are confronted with two of the principles that have always governed banking operations, and which have as much force to-day as they ever had. The greatest banking corporations in the world are not exempt from enquiring as to money deposited with them, is it to be **WITHDRAWN AT CALL**, or is it **TO BE SUBJECT TO NOTICE**?

The first arrangement is at the root of nearly all the multifarious forms in which banking is carried on, for, as will be subsequently shown, it involves the obligation (1) of constant attendance; (2) of keeping a sufficient stock of money on hand; and (3) having a counter, apparatus, and officers for the transaction of business. Most important of all, whilst it necessitates the keeping of a certain stock of money on hand, it governs *the manner in which all the rest may be employed*.

The person who undertakes the safe-keeping of money and its return when called for will soon ascertain that the commodity he has undertaken to safeguard is different in kind from all other commodities. It is representative of property rather than property itself; and the obligations he enters into with regard to it are different not only in degree, but in kind, from those which persons enter into with regard to other property. If, for example, a farmer undertakes to take care of a neighbor's horse, he must return that very animal when called upon. If a wharfinger undertakes the care of a merchant's iron, flour, or cotton, he delivers back the very goods he receives.

But the care of money is governed by different considerations. No man who delivers money to a banker for safe-keeping wants back the very notes or coins that he deposited. What he wants is, not the identical pieces of gold or paper, but the value of them in current money, or in some other form that may suit his convenience; for example, in a draft or bill of exchange.²

The relation therefore between the depositing customer and his banker is not that of **OWNER** and **BAILEE**, but of **CREDITOR** and **DEBTOR**. This being so, the banker is not bound to take care of his creditor's money as a wharfinger takes care of his customer's goods. But he is bound—and this

² It was indeed once stated to me by a person acquainted with the facts, that on the occasion of the first meeting of the directors of a newly organized bank in an American city, the President, addressing his colleagues, observed that persons would no doubt shortly make their appearance to deposit money, and as it was essential that each customer's money should be on hand when wanted, it was desirable to provide a large wallet divided into compartments, in which each person's separate deposit could be placed, duly labeled. In that case, he observed, the bank would never be called on for money without being able to respond at once.

The good man's care for the safety of the customer's money was commendable, but he did not tell his colleagues how the bank was to make profits under such an arrangement.

is the first simple contract of banking—to repay the amount deposited, or such part of it as may be required, at the time agreed upon, whether on demand or after notice.

In the meantime, a banker has the power, and the law gives him the right, to deal with the money as if it were his own; that is, he has the power to use the money at his pleasure for the purpose of making a profit out of it. The obligation, however, to pay a depositor's money on demand, at the very moment it is asked, is of the most stringent nature. Universal custom insists on a rigid enforcement of it. A merchant may ask for time from his creditors; a banker never. If he is reduced to this position he must close his doors.³

Common prudence therefore dictates to one who is undertaking the responsibilities of a banker for the first time, that he shall, at the outset, keep a considerable part of the money lodged with him in his own possession.

As time elapses, and the conditions of the supply and demand for money gradually assume a more settled form, such a banker will come to understand what portion of his funds he must keep on hand, and what portion he can otherwise employ.

THE EMPLOYMENT OF A BANK'S FUNDS.

But the question at once arises, in what form it may be otherwise employed, consistently with the peculiar requirements of his business? Money may be employed in various ways to make profit, and the mode of employment will be largely influenced by the consideration whether it is a man's own, or whether he is taking care of it for another. Some modes for the employment of money have been demonstrated by experience to be suitable for a banker; others have been equally proved by experience to be highly unsuitable.

(1) For example, a man who has money at his command may buy productive property with it, and so obtain a reasonable return in rent. A banker, however, would soon discover this to be a very dangerous business. He might be compelled to close his doors and wind up his business although in possession of immense amounts of valuable property.

(2) He can lend money on mortgage of property, and draw the interest. This is just as unsuitable for a banker as the other; for wherever

— — —
³ There have been, however, some curious exceptions to this. There was formerly a little bank in Prince Edward's Island, which made no scruple of telling depositors at times that they had run out of money, but would have some next week: just as a storekeeper would tell a customer that he was out of a particular pattern of print. There was, however, some excuse for this in the fact that the Island is sometimes cut off in winter from the outside world for a fortnight together. This bank has long disappeared. But it is rather odd that so recently as at the Louisville bankers' convention, a Cashier of a National bank in Georgia, with a capital of \$25,000, should be boasting of the arrangements under which business was done in his part of the State. Our customers, he said, are never discompossed when we run out of money. They are always good natured with us, and willing to wait while we get some!

mortgages exist, they run almost invariably for long periods of time. Even if subject to gradual repayment, the periods are of slow recurrence.

(3) When a community is sufficiently developed to give rise to them, money can be invested in stocks or bonds. It is open to a banker to do this, to a reasonable extent, as will be hereafter discussed under the head of investments, provided the stocks involve no liability and that both stocks and bonds are such as can be readily realized.

(4) He can engage in commercial or manufacturing business. This is wholly improper for a banker under modern conditions, and the banking law of Canada very wisely prohibits it.

The above are all legitimate channels of investment for a *capitalist*, as such.

But a banker's business is governed by other considerations. It is of the very essence of a banker's business to incur *liabilities*. The larger a banker's liabilities are—paradoxical as it may sound—the more he has of the elements of a flourishing business. For while a wealthy mercantile house will pride itself on having no liabilities at all, the pride of a banker is in the extent to which his liabilities exceed his capital; or, in plain terms, in the amount of his deposits and note issues. His creditors may be numbered by thousands, and the total amount he owes them may, in the aggregate, be ten times the amount of his capital or more. He, therefore, as a simple matter of prudence, will at all times so shape his business as to be able to fulfil his daily obligations.⁴

But how does he accomplish this? In every community, where business has become developed, there will invariably be found, in addition to those who have more money than they need, another class of persons, who have less than they want. Merchants, manufacturers, miners and transmitters of commodities, no matter in how simple a form their business is carried on, need, as a rule, more money than they have of their own. And if there is, in that community, a person who has spare money under his control, he will certainly be interviewed by one or more of this class with proposals for the use of a portion of that money. Thus we arrive at the first *rapprochement* between Banking and Commerce.

That bankers should listen to overtures from this class of the community is natural; and this for several reasons. Their business, in the very nature of things, is in a constant condition of flux. It is active at one period, and dull at another; largely arising from the changing seasons of the year, and therefore inevitable, and such as can be calculated on. The world's commerce is conditioned by the laws which govern its products. These products come largely (but not wholly) in the shape of yearly harvests; some of food, some of materials for clothing, some of appliances for shelter, some of materials for producing warmth or power.

⁴In the statements that joint stock banks in England are bound to place before the public, the term for "deposits" is, "debts due on simple contract." This legal term puzzles those who have been accustomed to the term deposits. But the phrase is strictly accurate.

Stocks of great magnitude must be held at one period, to be succeeded by a largely diminished volume as the consumption of the world progresses. These world-harvests, therefore, require at one time large amounts of money for the purpose of purchasing, storing and preparing them for use; conversely, an immense volume of money is set free when purchasing is succeeded by realization. All goods, whether material products or manufactured articles, are ultimately converted into money or book entries or paper representing money. As stocks of goods increase, the stocks of money (using that word in a broad sense) diminish, and as stocks of goods decrease, those of money increase.⁵

RELATIONS BETWEEN THE BANKER AND THE MERCHANT.

This being the case, it can easily be seen that the banker and the merchant have a natural relation to each other. The one deals with a fluctuating supply of money, the other with a fluctuating quantity of goods. The banker must perforce employ his money in fluctuating transactions. The merchant desires fluctuating supplies of money to meet his requirements. There is therefore perfect correspondence between them. [The business of both is, to consider how these fluctuations are likely to operate in the spheres of their business.]

[The merchant, naturally, moves first. The natural order is for the borrower to approach the lender. (Cases, indeed, sometimes arise, in the stress of competition, in which the order is reversed, but the results are usually injurious to both.)] The merchant approaches the banker, stating that the time has come for him to buy the productions of the district; the lumberer, that he is about to send his gangs into the woods; the fisherman, that his fleet is ready to begin operations; the manufacturer, that the year's supply of wool, grain, iron or raw cotton is arriving. There are as numerous varieties of such applications as there are of commercial avocations; but in every one of them there is a statement of a *want*, i.e., want of *money*. That want is exactly the counterpart of a want on the part of the banker. He has money for which he wants profitable employment. Thus both are brought within the operation of that all-embracing law of SUPPLY and DEMAND, which governs the world's transactions in commerce and finance, as surely as the laws of gravitation govern the material universe. The want being opened up, and the application made, it is for the banker to determine, having understood for what length of *time* advances are wanted, what *security* is offered, and what is the *position of the person* proposing to borrow, whether he can (1) make the advance, (2) open the credit, or (3) discount the paper. These are

⁵ This is the natural law, but it is affected by numbers of counteracting circumstances, the cross-currents of trade and of finance, so to speak. The operation therefore of this natural law is not always easy to trace. But it is a law notwithstanding. And, as a part of this law, all stocks of goods bear interest—a fact often lost sight of.

the three fundamental forms of the dealing of a banker with the business community.

All developments of business may at times afford outlets for the money a banker desires to employ. They are legitimate spheres for utilizing his funds, always on the supposition, never to be forgotten, that such loans shall be temporary, repayable at a fixed time which can be depended upon, that they shall be allowable by law, and within the legal borrowing powers of the corporation, if the borrower is such. And it is not too much to say that it depends upon the banker's answers whether the wheels of the machinery of commerce in his district are to begin to revolve for another season or not. Naturally, his desire is that they shall; for upon this a thousand other things depend, in which no one is more interested than the banker himself.

There is this, however, further to be said, that a great banking corporation may at times, and in certain circumstances, employ a portion of its resources both safely and profitably in other spheres than commerce. They may assist the financial operations of the Government, or make advances to municipalities, or assist in developing enterprises not strictly commercial, yet which have a close relation to commerce—such as railways, steamboat lines, gas and electric corporations, etc. All this will be fully treated of in succeeding chapters.

CHAPTER II.

THE ELEMENTARY PRINCIPLES OF COMMERCE IN CONNECTION WITH BANKING.

BEGINNINGS OF COMMERCE IN NORTH AMERICA—DEVELOPMENT OF THE EXPORT AND IMPORT TRADE—CO-OPERATION OF THE BANKER IN THE CARRYING ON OF TRADE.

IT has been shown in a former chapter how naturally the business of a banker is connected with that of a merchant. Therein are roughly sketched the elementary features of a banker's business, as custodian of the money of the community in which he lives, and the source whence the temporary wants of the commercial portion of that community may be supplied.

As this is a treatise, not solely respecting banking, but banking *and commerce*, it is reasonable to consider also the elementary principles of commercial business, including in that term not merely those who buy goods and sell them, but those who in various ways produce the goods required to be sold.

BEGINNINGS OF COMMERCE IN NORTH AMERICA.

Going back, as some persons now living can do, to the earliest developments of commerce, in certain parts of this continent, the time can be recalled when its sole production was in the shape of the skins of fur-clad animals. Before the time of farms and mills and crops and mines, was the time when the trapper, or hunter, penetrated to remote depths in the forest, or to unknown wastes of the prairie, capturing the animals, whose fur was so highly prized by the civilized world, and bringing the skins for sale to a central depot. There still flourishes, on both sides of the Atlantic, the great Trading Corporation, which has carried on this traffic, without interruption, for more than two centuries, over half a continent, whose centres of trade, generally called "forts," have, in some instances, developed into important towns and cities of the present day. In these forts, the Hudson Bay Company received the furs from the Indian tribes around them, and gave suitable goods in exchange, on such equitable terms that the Great Company came to be looked upon as the embodiment of all that was just and honorable, as well as rich and powerful. This reputation, first acquired many generations ago, the Hudson Bay Company and its agents have never lost.

There were similar operations in the older parts of French Canada, New England and New York, and also in the remote regions of the Far West of the United States.

These were the first beginnings of commerce in North America, and a

legitimate development it was; namely, the gathering together from remote regions of what was useful to mankind, and bringing back in exchange such products of other parts of the world as were suitable to the wants of its inhabitants.

DEVELOPMENT OF THE EXPORT AND IMPORT TRADE.

But the simple trade of early days on this Northern Continent has now developed, under modern forms of division of labor, into various great lines of export and import trade. Instead of furs as the sole product for export, we now have cotton, grain and flour, cattle and cheese, pork and fish, timber, iron, and gold, as well as many varieties of manufactured articles. And instead of simple imports of beads and ammunition, we have laid the whole world under tribute for the supply of our wants, and built warehouses and stores in our cities filled with every possible requirement of modern comfort and luxury. For the great Creator of the world has so ordered that the different parts of the earth shall have productions complementary to each other. The East produces what the West needs, and the West supplies the wants of the East. The South produces one set of commodities, the North another, the interchange of which is of mutual advantage. A perfect exemplification of this may be found, though on a small scale, in the simplest store of any Canadian town or village. In such a place are gathered for sale the products of almost every country under the sun. China has contributed tea, Java sugar, the West Indies coffee and fruits. On its shelves are to be found spices from the Eastern Archipelago, and currants from the Mediterranean. There are woollen goods made from raw materials supplied by flocks of sheep in Australia, cotton goods from the produce of plantations in the Southern States of America. The factories of Great Britain, France and Germany have contributed their quota, as well as those of the United States and Canada. There is, in truth, scarcely a country or climate in the world which has not taken part in furnishing the shelves of even a simple Canadian village store.

A remarkable thing, truly; and it is worth considering how this has come to be. Evidently, it cannot have come to pass without a combination of mercantile operations on the part of numbers of individuals, many of whom had no idea what the final result would be, and also just as complicated a machinery for the supply of *money* during the process.

Let a typical example be taken. How, for example, has that chest of tea come to find its way to a place so remote from that of its growth? The cultivator of tea-plants in the interior of China cannot have any idea of the persons who are to consume his produce. But these small parcels of tea, when once produced by the cultivator, become almost immediately subject to the operations of COMMERCE. The country trader of an interior province makes his appearance, and purchases the products of a few plantations around him. His knowledge, however, is limited, and so is the extent of his operations. He passes the tea on to a trader of larger

capacity in a commercial centre. Even he has little comprehension of the distances the chests will have to traverse before reaching their final destination; and little indeed can these traders comprehend how many agencies, both of commerce and banking, have to be combined before the products of those plantations can make their appearance on the other side of the world; to be sold, and finally consumed, by people of whom the Chinese tea-grower and merchant have no more idea than they have of the inhabitants of the moon.

The Chinese tea-planter never writes a letter to the Canadian store-keeper, advising him that he is growing a number of choice tea-plants, and asking whether he will buy the leaves when ready. But, if he did, and the storekeeper listened to his proposal (let us imagine this for a moment), some questions would arise, one of which would be, How is the tea to be delivered? and another, How is it to be paid for?

The producer and possible customer are thousands of miles apart; separated by vast stretches of sea and land, how, then, can they trade together? A very pertinent question; and it would pass the wit of any of the declaimers against middle-men to answer it, except in one way. *They must be brought together by middle-men; to speak in language becoming the subject, by the merchant,*⁶ who will conduct his operations accordingly. He will inevitably follow also the law of "buying in the cheapest market, and selling in the dearest," for he could do no business if he did not. This law is as beneficent as it is inevitable; inasmuch as goods are cheap wherever they are redundant; and dear where they are scarce. At every stage of these complicated processes, the BANKER finds

⁶ For the sake of argument, let us suppose that some tea-planter determines to dispense with intermediaries and to go, in person, to the consumer of his products. To enable him to do this, he will probably borrow money from one of the numerous bankers who abound in the Interior of China. The project would certainly find favor with those who imagine the merchant to be the natural enemy of the producer, and who sometimes initiate arrangements with a view to dispensing with him altogether, by which—to say truth—they generally lose money. In pursuance of this idea, the planter will proceed with his tea to the nearest river, or canal—down which he voyages, week after week, to a seaport—with his tea. He then crosses the ocean, lands on this continent, pays customs duties, and travels thousands of miles, arriving at last in a commercial city of Canada or the United States. Thence he proceeds to find his customer, and dispose of his product.

But is it not evident that the expenses of such a journey as this would more than swallow up the whole value of his tea, and probably leave him stranded in a foreign city, unable to return home? For the few chests of tea, which he had been able to produce, would have had to bear the whole expenses of his journey.

This may seem an absurd illustration, but it represents what would be inevitable, in case the theory of dispensing with "middle-men" were fully carried out.

If the ignorant prejudice against intermediaries were to prevail generally, almost every farmer on this continent would have to undertake some such a journey every year.

The first journey of the kind would undeceive him, and compel him to acknowledge that the merchant is as necessary a factor in business as the producer. For it has been demonstrated by experience, that even if a number of farmers pool their products, and appoint an agent to sell for them, his remuneration, on the average, will be as much as the profits of a merchant, and their risk far greater.

his place, and renders assistance. Almost from the time when the seed is sown, the mine opened, the trees felled, the fishing fleet sails, and all through the journeys taken, either by raw materials or finished products, to their destination, *the aid of the banker is required and rendered.*

CO-OPERATION OF THE BANKER IN THE CARRYING ON OF TRADE.

Throughout the whole processes of trade, the banker co-operates by supplying money to those who carry it on and also by transporting money, from place to place, as needed.

The bankers who take part in the work are of various grades. Some of them, indeed, take only a small part: passing it on to others of a larger calibre and with wider connections. The largest class bankers not only supply money at first hand to the men who purchase the products of the planter and the farmers, but they also open credits for the lumberer and the foreign merchant, give cash for the bills drawn by the exporter on foreign correspondents, lend money to the importer to pay customs duties and finally assist in the distribution of finished products, by discounting the notes given to him by his customers.

What are the methods and principles under which all this is done; which of them are sound, which of them conduce to success, and which lead to failure or disaster, will be fully opened up in subsequent papers.

CHAPTER III.

FURTHER PRINCIPLES OF BANKING, AND DEVELOPMENT OF PRIVATE BANKING IN ENGLAND.

ORIGIN AND MEANING OF THE WORD "BANK"—THE DELEGATION OF A BANKER'S POWERS—DEVELOPMENT OF PRIVATE BANKING IN ENGLAND—CONSIDERATIONS GOVERNING PRIVATE BANKING.

A BANKER who has opened an office for business will not have proceeded far before perceiving that his occupation is a far more exacting one than that of a capitalist or money-lender. The obligation to pay variable sums of money on demand involves another obligation, viz., that he, or some one acting for him, shall always be on the spot to answer the demand made. If the banker, before entering upon the business of banking, properly so called, has been in the habit of *lending money*, and has become known as a money-lender, he will have had applications in abundance, but he would be under no obligation to be on the spot to answer them. He could intermit his business to pursue other engagements, yet no one would have ground of complaint against him. Herein is precisely the point of difference between a money-lender and a banker—a difference that is frequently not well understood, and the failure to understand which has led to confusion both in thinking and in writing.

ORIGIN AND MEANING OF THE WORD "BANK."

It is of the essence of a banker's business that he shall be in a position, at all times, to pay money on demand to those who have the right to demand it. This necessity is the reason why a banker finds it necessary to have what is universally known as a *counter*; an elevated table, in fact, of proper height for convenience of counting. If we pursue the idea we shall arrive at the genesis of the word *bank* in English, or *banco* in Italian, as applied to money matters.⁷

But there is a further idea connected with this word. The word in common usage is invariably connected with the idea of *protection*—protection, for example, against floods, as are the levees of the Mississippi, or against the tides, as in Holland and Nova Scotia. And the idea of protection is strictly applicable to a banker's counting-table or counter,

⁷ The word bank in its original meaning, as is well known, indicates nothing but a raised platform, generally of earth, behind or before which persons can stand. The word thus came to be applied to the elevated table, or platform, behind which the banker, or his substitute, stood to receive or pay money. This elevated table is the real "bank," and the person who stands behind it is a banker or his representative.

so made, *ex necessita*, as to protect the banker himself. For the purpose of mere counting, a table in the middle of a room would answer. But a banker must have a store of money beside him, and finding it necessary to protect that store, needs to arrange his counting-table so he can stand behind it, and do business in security. Indeed, it is customary on this side of the Atlantic, as every customer of a bank knows, to protect the counter itself by screens.

In conducting the business of banking, it is necessary to fix *certain hours* when demands for money can legally be made. As to these hours, a private banker can fix them for himself; in which case his customers, or the public, being duly notified, will be debarred from making legal demands at any other time. This is part of his contract with them. But usually, as the business of banking is developed, the hours of business become settled by custom, to which all conform for the sake of convenience. If the bank is a corporation its hours of business are usually stated in its by-laws, and advertised, especially in country districts, where persons have to travel far at times to reach the banker at all. The only way in which, as a rule, the law intervenes, is to declare what days shall be considered as *holidays* on which no demand can be made at all.

THE DELEGATION OF A BANKER'S POWERS.

The necessity of being always present to answer demands soon imposes on the banker a serious question, viz., to whom can he delegate the power to answer demands in his absence? For absent, at times, he must be. Even if he can trust a clerk to answer the demands of depositors from hour to hour, the safe custody of his stock of money or securities is a matter of the first consequence, demanding the attention of more than one person. But even the function of lending money cannot be intermitted by a banker, as it can by a mere money-lender. With his open door and open counter, he must be prepared either in person or by deputy to answer the demands of borrowers as well as of depositors. The commercial customers of a bank have obligations of their own to meet day by day, and in these days depend upon arrangements with their bankers to enable them to meet these requirements. It is therefore necessary for a banker to have some person in his office whom he can trust to exercise this function of lending money in his absence. But what position is such a person to occupy?

This question, in former years, was repeatedly asked by the bankers of England, and it was generally and finally answered the same way. When such a person was found, and he was generally some clerk or officer of their own, whose qualities of shrewdness and sound judgment had been observed in course of business, he was at first entrusted with power of attorney and placed in the position of managing clerk.

But it would soon occur to a shrewd banker, that such an officer might build up an interest and connection of his own, which interest, so long as there was no closer connection between them than employer and employed,

might in time become something distinct from his own. It might, in fact, be used to his disadvantage and loss. This would naturally lead to the consideration whether it was not desirable to bind such a capable officer to himself by taking him into PARTNERSHIP. By this means all thoughts of rivalry, or separate interest, would be banished, and such a close identity be established that the banker and his confidential officer would no longer be two persons, but, for all banking purposes, only one.

DEVELOPMENT OF PRIVATE BANKING IN ENGLAND.

Through this process of what may be called banking evolution, nearly all the great banking firms of England have passed. The clever and shrewd accountant has been promoted to the management of the office, taken into partnership, accumulated wealth, and has finally become the head and principal of the concern which he once served. And his name, once utterly unknown, is now in a prominent place in the firm's title, and figures in banking and commercial directories so prominently as to be known all over England.

It is thus, probably, that the banking firms of England came to have such long titles as many of them had until modern developments set in. Thus, for example, it was with Barclay, Bevan, Triton, Trells & Co., Glyn Mills, Halifax & Co., Williams, Deacon, Labouchere & Co., Smith, Payne & Smiths, and other firms of like character. And so great a weight did the more prominent of these names carry, that they have been generally retained in the corporate name of the joint-stock company into which they have been merged.*

But in the serious step of taking in a partner, either a merchant or a banker will have regard to many circumstances. Perfect honesty and reliability are the primary considerations; after that come business knowledge, prudence and industry, and a due measure of caution and enterprise. Along with all these a merchant who consults his own comfort will take care to have a man of reasonably good temper and common sense about him. A quarrelsome, cross-grained man, one who cannot give and take, a man so conceited that he cannot fancy any other person knows anything, no matter how clever he may be, should be left to plow his own furrow, but never entrusted with a partnership.

In a business like banking, where the interests of so many persons depend on a successful *continuance* of the business, it is of the first importance to provide for the future. The business of a bank carried on by

* Most of this has as close an application to commercial partnerships as to partnership in banking. It is well known that many of the men who are now heads of great commercial firms commenced their career in the "house" as clerks. While doing their own special work faithfully, they displayed ability for something beyond it—ability not only for keeping books, but for suggesting improvements; capacity not only as salesmen, but shrewdness in discriminating between customers; ability not only to handle goods, but capacity for understanding what goods would suit the customers. They displayed, in fact, that quality that is so difficult to define, but so well understood, viz., business ability.

private individuals might, in the absence of such arrangements, be brought to an entire stop by the death or withdrawal of a single partner. Such a stoppage, in certain cases, might throw the business of a whole district into confusion. These contingencies in former days were necessarily provided for by arrangements between the partners themselves, and the best legal skill in England was drawn upon to prepare deeds that would ensure a continuance of business. That this has been successfully done is shown by the record of banking firms that have had an unbroken career for upwards of two centuries, and are in vigorous life at this day. In such arrangements none are so much interested as junior partners, for they, obviously, have most to fear from an interruption of the business.

Private banking on this continent has never occupied the high position it attained in England. The reason for the extraordinary development of banking by private firms in England was the jealously-guarded monopoly of the Bank of England. In the United States, however, and in Canada, as in Scotland, the development of banking by joint-stock companies has always been unrestricted by monopoly; and even the very appearance of it, in the case of the United States Bank, was ruthlessly stamped out by a Democratic President.

But though the banking business of towns and cities on this continent has been almost wholly conducted by joint-stock companies, a considerable sphere has existed (at any rate, until late years) for the operations of private banking in the thriving villages and smaller towns of the country.

The humorous story of David Harum, which, as is well known, was written by a bank officer, probably gives a fair picture of the kind of persons that many of them were, and the kind of business they did, in the village communities of the United States.

Private banking at one time had obtained a considerable development in Canada, and that for a good reason in the circumstances of the country, largely agricultural as the Provinces of Canada are, the towns and cities generally at considerable distances from each other, and between them having grown up villages of fair population, in which are to be found some of the features of town life. Such villages did not at one time afford sufficient business to make it profitable for joint-stock banks to be established in them, for their methods and machinery are costly, and it is contrary to law for them to undertake any other business. But where a joint-stock bank would scarcely pay expenses, a private banker might make a respectable living; for in addition to banking he could undertake, for example, to effect insurances, both fire and life. He could assist in drawing up the simpler kinds of legal instruments, and do the same business as is done by professional accountants. This state of thing, however, is gradually passing away. By the development of the country, many former villages are becoming towns, and are affording sufficient business to enable one or more branches of joint-stock banks to be established in them. Even in this case, however, a private banking firm may

maintain its position, if its partners are known to have undoubted means, and have so conducted the business as to gain and keep the confidence of the community.

CONSIDERATIONS GOVERNING PRIVATE BANKING.

Before entering on the larger class of questions that appertain to joint-stock banking, it may be well to note briefly the considerations that should govern a private banker in the conduct of his business:

(1) He should certainly not carry on any *mercantile* business, for in so doing he might be in competition with his own customers.

(2) He should undoubtedly be possessed of a sufficient amount of CAPITAL.

Every private banker, in the nature of things, should have a fund out of which he can meet the losses which are incidental to the lending of money. For if he cannot meet them out of his capital, he must draw upon the money of his depositors for the purpose, to their loss.

It must be remembered that the customers of a private banker are almost invariably persons of small means, who have deposited money with him which they cannot afford to lose. A village community, as a rule, is not distressed or embarrassed by the failure of one of its store-keepers; but it may be very seriously distressed, and the distress will probably extend to the farming community round about, if a private banker cannot repay the sums deposited with him.

There is, however, this to be said, that a private banker can take securities for his loans that are prohibited to a chartered bank and so keep himself safe.

(3) A private banker must beware of getting his money "locked up," and will need to calculate carefully the length of time which borrowers require so as to be sure of having sufficient money in his office, or at command, to meet daily demands. And in taking fixed deposits, the notice should be sufficiently long to enable him to make arrangements to meet a large demand without embarrassment. He will, of course, have it understood in taking deposits of more than an average amount that the notice will be required, as a matter of business.

(4) To insure all this, he must keep sufficient reserves.

There are private bankers in Canada who have continuously fulfilled these conditions, and maintained a prosperous business.

On the other hand, there have been a certain number of failures amongst this class, which failures have been almost invariably traceable to want of sufficient capital to begin with, coupled with a disposition to take risks which a chartered bank would avoid.

CHAPTER IV.

JOINT-STOCK BANKING IN GENERAL.

CANADIAN JOINT-STOCK BANKS—THE BANK OF ENGLAND—ORGANIZATION OF BANKS IN THE UNITED STATES.

THE early bankers who co-operated in the movements of commerce, in Europe, apart from the great institutions which were avowedly created to assist the Government, were largely, as has been seen, private individuals or firms. But since the extraordinary opening up of countries in modern times and the vast development of commerce in consequence, the tendency has increasingly been for banking to be carried on by incorporated companies.

Banking, therefore, in all its important spheres, is thus carried on; and it has been evident that the principal motive for giving *powers* to banks in a corporate form is that they might efficiently co-operate in the promotion of COMMERCE.

A joint-stock bank with its headquarters in China and its agencies in England, the United States, and Japan, takes an influential part in the movements of the Eastern trade of those countries. Similarly, an Indian bank having its headquarters in London covers the whole of our Indian Empire with its operations and takes part in the movements, both outward and inward, of the commerce of Australia and New Zealand. These are simple facts.

CANADIAN JOINT-STOCK BANKS.

The principal banking corporation of Canada covers the whole Dominion from the Atlantic to the Pacific with its branches, and there is scarcely an operation of manufacture or commerce therein which that institution does not assist in developing. But the commerce of Canada has an intimate connection with England and the United States. This bank therefore has offices in London, New York and Chicago, and assists in carrying on the larger operations of trade in all these cities.

The same may be said of other Canadian banks whose operations cover an immense extent of territory in the United States as well as in Canada, from New Orleans to the Yukon, and enable them to co-operate in the movements of commerce from its smallest beginnings in the operations of a country trader, to those vast developments by which the productions of whole countries are massed for shipment in great ports and sent across the ocean to the remotest parts of the world. It is evident, however, that banks covering so wide a field must of necessity have a corporate form. No private firm, however wealthy, could possibly carry

on business in so many diversified forms, in such diverse conditions, and covering such vast spheres of operation as are covered by some modern banks. Incorporation therefore was a necessity.

THE BANK OF ENGLAND.

It has been already pointed out that the *continuity* of a banking firm is a most essential feature of the business. So many interests depend upon it, that all modern countries have sought by legislation to provide that, so far as possible, they shall not be subject to the changes of time and chance. In Scotland the greater part of the business of banking has been carried on for two hundred years by corporations organized directly or indirectly by acts of Parliament. And banking would doubtless have had the same development in England, but for the fact that up to a certain period the Bank of England was by long tradition extremely jealous of banking being carried on by corporations. That great corporation, while willing to tolerate what it could not prevent, viz., the formation of private banking partnerships, would never tolerate the formation of banking corporations created by act of Parliament.

The idea of the Bank of England was that all other banks in England should be tributaries to itself, revolving round it as lesser lights revolve around the sun. They should keep an account with it, deposit with it all their spare funds, keep their cash reserves in its hands, and in case of need rely upon it for assistance by rediscounting or by secured advances.

The Bank of England was thus to be the *Banker's Bank*; and any coming into touch on its part with the commerce and trade of the country was to be through the medium of other bankers. There was no express law to this effect, but the unwritten custom gradually grew up, and so potent was its force that in time it became fixed and universal. Even after the force of public opinion became potent enough (as it did after the crash amongst the private banking interest in 1825) to break down the opposition of the Bank to the establishment of banking corporations, the force of this tradition prevailed. To this day the Bank of England is largely the banker's bank. All the banks in the country keep an account with some bank in London, or with the Bank of England direct, and all London banks keep an account with the Bank of England, and commit to its keeping their reserves of cash. Such great banks as the National Provincial Bank of England, with its 200 branches and 50,000,000 sterling of deposits; or the London and County, with its deposits of 44,000,000 sterling, not to mention other great corporations in London, Manchester, Liverpool and other centres, besides every bank in Scotland and Ireland, all acknowledge the supremacy of the great central institution by keeping accounts with it, and lodging with it their spare funds.

It might be thought that when power was given by Parliament to establish banking corporations, the Legislature would endeavor to have them modelled upon the pattern of the Bank of England. That great corporation had demonstrated the wisdom of its constitution by a re-

markable course of what was, on the whole, good management. During all the vicissitudes of English history from the Revolution of 1688 to the time then present, it had maintained its position, and rendered inestimable service to the State. But the Bank of England was not taken as a model; and that for good reasons. The Bank had one distinguishing power which marked it off from all other banking concerns in the kingdom. It had the power of issuing notes which were created **LEGAL TENDER** by law.

There was at that time nothing to prevent private bankers from issuing notes to any extent they pleased. They were not empowered to do it by law; neither did the law prevent them, the only condition imposed by law was that no note-issuing bank should carry on business within sixty miles of London. But none of their notes were legal tender, consequently their circulation was almost wholly confined to the district in which they were issued. But the notes of the Bank of England being legal tender, circulated, and were intended to circulate, all over England, and were a legal tender everywhere except at the Bank itself.⁹ But they were never legal tender in Scotland.

There was another reason why the charter of the Bank of England could not be followed in framing laws for other joint-stock banks. It was a part of its original constitution, and that feature of it has subsisted ever since, that the whole of its capital should be loaned to the Government. It was founded to assist the Government in the difficult days of the Revolution of 1688, and it has retained this essential feature to this day. Although its capital has been increased more than tenfold since its foundation, there has never been a time, down to the present hour, when the whole of it failed to be loaned to the Government of the day. And further, it has always been understood that the Government has had the first claim to any resources that the Bank might possess. This has never been embodied in legislation, but it is one of those traditions that have been so long in operation as to have acquired the force of law.¹⁰

⁹ It must not be supposed, however, that the Government of England was responsible for the notes. It is a common mistake to suppose that it was. The Government of England never issued circulating notes as the Government of Canada and the Government of the United States have done. The Government of England, though it did interfere occasionally in times of pressure to assist the Bank, was careful to guard itself from being responsible for the notes. All that it ever did was to relax some one or other of the restrictions under which notes were issued. But no noteholder or other creditor of the Bank was ever allowed to imagine that he could go to the Treasury and make a legal demand there.

¹⁰ The same principle of the whole of the capital of the bank being lent to the Government lies at the foundation of the National banking system of the United States. This system, like that of the Bank of England, took its rise from the necessities of the Government. Its founder had primarily in view not the establishment of sound banks, or of a secure circulation, but the obtaining of money to carry on the war. And it fully answered its purpose. Almost the whole banking capital of the country was loaned to the Government in the shape of the holding of Government securities. And not only was the operation in the early days of the war highly profitable to the banks, but a currency was secured whose safety has never been questioned. But in the change of times and circumstances very grave defects have been developed in this system which will be noticed later on.

The charter of the Bank of England, which charter is simply an act of Parliament embodying its constitution, has therefore never been adopted as a model for other banks in England. In fact, the joint-stock banks of England have never been governed by the provisions of a general act as have the banks of Canada and the United States. Apart from the necessity of making a declaration as to the amount of their proposed capital, the names of their original directors and stockholders and most particularly the name of the officer in whose name the corporation can sue and be sued, they are at liberty to carry on their business in any way that stockholders and directors may deem advisable. The one important restriction to which they are subject is in the amount of their *circulation*.

Since the passing of the celebrated Banking Act of Sir Robert Peel in 1844, every bank in England, whether private or joint-stock, has been obliged to restrict its issue within the amount of its average issue for the three years previous to 1844. This amount has been registered, and appears in every published statement of the note issues of English banks. The banks of Scotland made a strenuous resistance to the restriction being applied to them; and succeeded so far as this, that they were allowed to exceed this limit on condition that they should hold gold for the excess—an academic rule, devised by legislators of little banking experience. But the liberty they obtained to pass beyond the average of circulation of half a century ago has proved to be most profitable to the banks and advantageous to the country.

ORGANIZATION OF BANKS IN THE UNITED STATES.

The organization of banks in the United States has passed through various stages, and is complicated by the fact that it has been dealt with by both State and Federal legislation. To attempt even a brief summary of the steps by which the banking laws of the United States have reached their present development would be beyond the scope of this work. Suffice to say that after an attempt made many years ago to establish a Bank of the United States on somewhat similar principles to that of the Bank of England, which project failed for political reasons, numerous charters were granted by the separate States. Many of these, especially in the Eastern cities, were well considered, and framed with much financial wisdom. But it was far otherwise in some of the States of the West. In these newer communities, many charters were granted by their several States in a manner that set common sense at defiance. Numbers of banks were established with powers to issue notes, under the foolish idea that by this means money could be made plentiful, and the development and prosperity of the district insured. No proper provisions were made for the redemption of these notes; it thus came about that masses of currency were set afloat which speedily went to a discount; whilst much of it ultimately became almost as valueless as the Continental currency of the Revolution. This "wild-cat" currency (as it was named) was a source of untold trouble to merchants and travelers, from the fact that the notes

of nearly every Western bank had a different value, which value could only be ascertained from publications issued for the purpose. These bank-note reporters were a necessary part of the furniture of every business office, and were even necessary to householders, lawyers and ministers; for none of them could tell what was the real value of the bank bills that were circulated, without consulting one of these records. But a step was at length taken that put a final stop to all such bank issues. A great exigency had arisen under which the interests of the separate States had to give way. It was during the first years of the great Civil War that Mr. Chase, the very able Secretary of the Treasury, conceived the idea of establishing, not one great bank of issue like the Bank of England, but *numbers* of banks whose whole capital should be lent to the Government; and who should have the right of issuing notes for the amount of their loan which would be held as security therefor (less a percentage reserved). These notes, then, would be indubitably safe, and could be received without question, from one extremity of the country to the other. But they were never made legal tender. The system was no sooner launched than it proved successful. It appealed to patriotic feeling. Large numbers of banks, formerly organized under State laws, adopted the National system. And under it an immense number of new banks were organized. The old issues of State banks, under the operation of this system and disabilities imposed by it, speedily disappeared, and the notes of the national banks became universally prevalent.

Along with all this, a system of Government issues was devised which were made legal tender. But as they were not payable in gold, which continued at a premium all through the war, they commanded no more favor than the notes of the national banks. For these were exchangeable for Government notes at any time, besides which they were, if anything, safer. The notes of the Government rested on the credit of the Government alone, while those of the banks were not only secured by Government bonds, but were a charge upon the assets of the several banks.

It is not necessary to enter further on the subject of the Government issues. Our concern is with banking, and with the laws of the United States on the subject.

It must not be imagined that when the National banking system began to prevail so extensively it drove the old State banks out of existence. By no means. The State banks could, under their respective laws, carry on all the operations of banking except the issue of notes. Now, for banks in large cities, the power to issue their own currency, restricted as it was to a lesser amount than their paid-up capital, and accompanied by the obligation to hold Government bonds, was of less and less value as the bonds yielded a lessening rate of interest, until finally it became of scarcely any value at all. It was, and it is, of some value to banks in smaller centres. But banks in the large cities, and especially in New York, could dispense with it without inconvenience, and work under State charters, on their own credit alone.

CHAPTER V.

THE INTERNAL ECONOMY OF A JOINT STOCK BANK.

THE TWO MAIN DEPARTMENTS—THE TELLER—HIS QUALIFICATIONS—
THE LEDGER KEEPER—DISCOUNT AND LOAN DEPARTMENT—THE AC-
COUNTANT—THE BRANCH MANAGER.

IN every banking office, be it large or small, the work will be divided into two main departments—the handling of money and the keeping of accounts; each of these, in a large office, having various subdivisions. Above and beyond these is the department of management, whether of a single office, or the whole bank. Let us consider each of these in order.

THE TELLER.

The first persons with whom a banker has to do when he opens an office are those who bring money to deposit. It is for the purpose of receiving them, that he must have a *counter*. This counter, as has been shown, is the original bank, behind which the banker or his officers stand and on which money is placed to be *counted*. Hence its name. A person who stands at this counter ready to receive or pay money is called in England a cashier, meaning a person who handles cash. In Scotland, the United States, and Canada, this officer is called a teller, or a person who *tells* or *counts* out the money he handles. In a small branch the manager himself often performs this office; but when the business is enlarged, the work must be delegated to another. The amount passing through the hands of such an officer in the course of a day is very large, and he is responsible for it to the last penny, or the last cent. Such a man must have a good head for figures, quickness of fingers, be able to count rapidly all sorts of money, and also to make rapid calculations. A slow man, no matter how correctly he may do his work, will never answer for this post. He will only waste the time of customers, and irritate them. A good teller must have a quick eye, so as to be able to tell a bad coin or a forged note or draft, the moment he sees it. An expert teller will come to have a sort of instinct about such things, and be able to detect a bad coin or a bad bill, or raised draft, by instant eyesight. Besides this, he must be able to keep cool on busy days, and learn not to be flurried when many are waiting about the counter, or are unreasonable in their requirements, as some people are at times.¹¹ If he does get flurried, he will be

¹¹ In some English banks a practice prevails of providing an ante-room and only admitting into the banking office as many persons at a time as there are tellers to wait upon them. Thus there is never a crowd about the counter, and the teller has only one person to attend to at a time. To carry out this practice,

sure to lose money. He should have a large development of civility; if it be not natural to him, he should cultivate it.

A good teller, besides being quick and cool, will also be observant; and being so, may notice many things in his intercourse with customers and the public which are worth communicating to the manager. In a large bank a division is customarily made between the duties of those who receive money and those who pay it out. In both of these, however, the observant mind, the quick eye, and the skilful fingers are equally necessary.

In the banks of the United States, the senior teller has the responsibility of certifying checks to be good—a difficult function to perform, as may be supposed, seeing that the teller does not keep the accounts himself, and must trust largely to his memory. This officer in an American bank is entrusted with a certain discretion in the matter of certification. He is always a man of experience, and his position is next to that of Manager or Cashier.

THE LEDGER KEEPER.

In the natural order of things, the next person with whom a bank customer has to do, is the person who keeps the ledger containing the customers' accounts. The connection between him and the teller is necessarily close, and it is important that the money paid in or taken out by a customer should be speedily entered, so that on a busy day of many transactions the account may be accurately stated at any hour. Otherwise, there is danger of a check being refused when there are funds to meet it, or of a check being paid after all the funds have been drawn out. The ledger keeper, like the teller, must be both accurate and quick; but above all things accurate, as a mistake in the keeping of a customer's account may lead to an actual loss of money, or to the closing of the account itself. And like a teller he must have a quick eye to observe, for upon him rests the responsibility of discovering forgeries. To this officer in a Canadian bank all checks are presented to be "marked good" before being paid. But there is a difference in this matter between the custom prevailing in the United States and in Canada. The ledger keeper in Canada before he marks a check good, *debits the customer's account with it*. There is thus a scientific precision about the process. In an American bank, the check is simply certified to be good without the customer's account being debited with it, a practice which seems to open the door to serious abuse. This custom is analogous to that prevailing in many English banks. It is not good in theory, but it seems to work well in practice.

however, different arrangements are required from those in a Canadian bank, where customers have direct access to a ledger keeper or a discount or collection clerk. On the whole, the Canadian arrangement is preferable, though it requires much more coolness on the part of a teller than the other. An English cashier or Scotch teller almost invariably stands at an open counter. On this side the Atlantic, he is protected by a railing.

The ledger keeper, like the teller, if observant, may notice many things in the working of accounts that are worth communicating to the manager, especially symptoms of exchanging checks, or borrowing surreptitiously from another bank. He can also form an opinion as to whether a customer is easy financially or otherwise.

THE DISCOUNT AND LOAN DEPARTMENT.

In this important office a clerk has many opportunities of displaying more than ordinary intelligence if he is possessed of it. To a discount clerk is committed the responsibility of seeing that the bills he handles are in proper legal shape. The manager considers whether or not the *names* on the bills are satisfactory, and if they ought to be discounted. But the discount clerk examines every bill to see that there has been no material alteration in it, that it is not dated on Sunday, that the signature and endorsement are in proper order, that it is complete, and not defective. He will also notice any peculiarity in the signature or endorsement which would lead to a suspicion of fraud. A good discount clerk will notice how the account of a customer is working, whether favorably or otherwise, also whether renewals are frequent, and certain lines of paper tend to become chronic.

In the case of loans he will be expected to scrutinize the security, and to see that such documents as warehouse receipts, bills of lading, policies of insurance, etc., are in proper order. Loans on bonds and stocks, where the business is large, are generally under charge of a special clerk. His duties will be very similar to those of a discount clerk. Here again an observant clerk will notice much, in the actual handling of the business, which would be of interest to a manager to know.

The duties of a *collection clerk* are of much the same character as a discount clerk, and call for no special remark. The same may be said of the exchange clerk. He deals with foreign bills as a discount clerk does with inland ones. And while a manager determines whether the bills are to be bought or not, and fixes the rate, the exchange clerk will see whether they are drawn in accordance with law, and whether the documents of security are in proper form.

THE ACCOUNTANT.

The highest officer in the ordinary working of a bank, and coming immediately next to the manager, is the accountant. He keeps himself, or causes to be kept, the important book called the general ledger in which the leading departments of the office are summarized. It is by an accurate keeping of this book that the manager is made acquainted with the amount of the deposits, discounts, and cash, day by day, together with balances due from one or to other banks or agencies. It is by information gathered from this book that he guides his course, very much as a navigator guides his ship. Summaries of the principal accounts are also laid

before the meetings of the Board and form the foundation of statements to be made to the Government. As a matter of mere bookkeeping this ledger is not difficult to keep. But to keep it accurately is of the highest possible importance, for it is a check upon and a key to all the other books of the bank. There is another book of high importance which should be kept by the accountant, or his assistant, viz., what is generally known as the liability ledger. In this book an account is opened with every discounting or borrowing customer, which account is debited with every bill discounted, and credited with every bill paid. The account shows whether a customer is keeping within the line allotted to him by the Board, and also, what is of the highest importance, how much of each man's name (or each stock in case of stock loans) every customer has under discount. This book should be kept rather by the accountant than by the discount clerk. Its contents should be so familiar to the manager, by examination or by summaries, that he may be said practically to know it off by heart. The accountant should always be a man who has passed through the grades and understands the work of every other clerk in the bank. He has a supervisory control of the other clerks, and is responsible for the *discipline* of the office. He is able to instruct clerks in their duties, and to advise them in case of difficulty. He naturally takes the manager's place in case of absence and is looked upon as eligible for promotion to a managership, should he display managing qualities when placed temporarily in charge.

But here must be inserted an important proviso. It is not every good bank officer who is fit to be a manager. A man may be a first-rate teller, or even a first-class accountant, and yet not have the qualities that would make him a successful manager. What these qualities are will appear later on; meanwhile, the foregoing will give a general idea of the leading divisions of work in a banking office. But they are susceptible of variations according to circumstances, and there must be many *subdivisions*, as the office increases in size. In the smaller branches, of which many exist in Great Britain and the Colonies, the whole of the above duties will be performed by two, three, or four men, of whom the manager is one. But as a branch, or individual bank as in the United States, increases in size, it is necessary to arrange matters so that the manager shall have less and less time occupied with the routine work of the office, so as to concentrate his attention upon its discounts and loans and keeping a proper supply of money. Far better to have an extra clerk employed, at a cost of a few hundred dollars a year, than to allow the manager's attention to be divided from matters by which the bank may lose thousands or tens of thousands.

One final remark. The various books and departments will be arranged so as to *check* each other. Especially should the bookkeeping department be a check upon the officers who handle money or its representatives.

The foregoing sketch is applicable solely to the single office of a

bank. The general manager's department, or, as it is sometimes called, the Head Office, calls for a different set of men altogether.

THE BRANCH MANAGER.

The manager, as Mr. Gilbert well observes, in his practical treatise, is a *banker* and not a *bank clerk*; and there is somewhat of the same difference between the two as there is between a lawyer's clerk and a lawyer.

The manager should be a man who understands the principles of the business, and especially the principles on which loaning and discounting should be conducted. He must have the aptitudes of a man of business; must have more or less of "*savoir-faire*;" must know how to talk to different classes of people; in fact, he should understand human nature. It is he to whom customers apply for loans, and to him they explain their position, their means, and their difficulties. He must understand enough of business to judge whether their applications are reasonable or not; whether the amount is proportioned to the extent of the business; whether the security is good; whether the time is reasonable. And as his business proceeds, he must be able to judge whether a discount account is working properly; whether the class of bills offered is satisfactory; above all, he must have a keen eye to observe any signs of coming trouble, and courage to take measures accordingly. Yet he must be discreet, and not hasty in forming conclusions; otherwise, he may do serious mischief. An important part of a manager's care is to see that the supply of money for his office is sufficient, so that he may meet the daily demands of customers and of other bankers through the clearing-house or in course of exchange. If he is manager of a branch, he has a head office to fall back upon for supplies, and a general manager for orders or advice. But the daily duty presses upon him of seeing that his office is properly equipped for meeting demands. For this reason he will notice day by day the balances at his credit in other banks or agencies.

A manager will pay special attention to how his clerks perform their duties, and "keep them up to the mark" in that respect; encouraging or reproving as circumstances arise, or if necessary changing their positions, or recommending change. He will of course be often in communication with the accountant in regard to these matters, and will see that the accountant himself performs his duties properly.¹²

A good manager will look after the past-due bills of his customers, and take them specially under his own charge.

This remark applies very particularly if any of his customers become insolvent. It will be his special care to see that the most is made of the estate, and that the rights of the bank are properly guarded in the mat-

¹² The manager will of course understand the work of every man in the office, and should be able to do it if necessary. It will add immensely to his influence in the office if he is able to go to a clerk and say, "You are not doing this work properly. See now, this is the way to do it," suiting the action to the word. Clerks in such an office will be sure to be alert, and will talk among themselves, "The manager knows all about it; it is no use making foolish excuses to him."

ter of ranking upon it. If the bank of which he is manager has no branches, other duties will devolve upon him; such, for example, as relate to his intercourse with the directors, and also to general administration. These, however, are fully treated in the chapter relating to the department of the General Manager.¹³

¹³ In a bank situated in the United States, nearly the whole of the foregoing will apply as a description of the work to be done and the men that have to do it. But the person entitled "Branch Manager" in the above would, in an American bank, be called Cashier, or possibly President. The only change needed, in that case, in the description of his duties, would be that instead of having a General Manager and Head Office to refer to, he has a Board of Directors on the spot.

CHAPTER VI.

DIRECTORS OF AN INCORPORATED BANK.

DIRECTORS — GENERAL QUALIFICATIONS—DUTIES — THE PRESIDENT—
COMMITTEES OF DIRECTORS—LOCAL DIRECTORS.

THE general framework of a joint-stock bank in Canada and in the United States, and in some respects also, but in a lesser degree, in Great Britain, is defined by acts of Parliament or of Congress.

In Canada and the United States the law regulates the minimum of capital, the rights and functions of stockholders, and their voting power. It ordains that such banks must be governed by a Board of DIRECTORS; it regulates also the minimum amount of stock they must hold, and the minimum number of which the board shall be composed. The law gives these directors the power of appointing and dismissing officers, but it does not prescribe anything as to the duties and responsibilities of such officers.

The Banking Law of Canada also limits the amount of circulating bills, and regulates the security under which they are issued. But it imposes no limits on deposits, or discounts, or investments, or reserves. The principal difference between the banking law of Canada and that of England is in the restrictions that the former lays upon the manner in which banking loans shall be made, namely, forbidding absolutely any loans upon real estate, and in the imposition of elaborate rules and regulations, with penalties, with respect to loans on merchandise, all which are absolutely foreign to English and Scotch ideas of banking. But on these points the law of the United States agrees with that of Canada.

DIRECTORS.

All these and some other minor points being prescribed by law, it will be well to consider how such laws are, or should be, worked out in practice, in order best to secure the object for which a bank is established.

Proceeding upon this idea, it is evident that the first matter of consideration will be the composition of the board of directors. Upon this will largely depend not only the well-being and prosperity of the bank, but the very continuity of its existence. The government of the bank is placed in their hands by law, and they are held responsible for it by public opinion. And rightly so.

What manner of man therefore should a director be individually? And what sort of selection should be made with regard to the men who have to act collectively? These are pertinent questions, and an endeavor will be made to answer them.

When the legislature ordained that joint-stock banks and trading

companies should be governed by directors, the intention was doubtless that these should have somewhat of the place of partners in a private firm. This was the theory, no doubt. But consideration will show that it cannot be strictly carried out. For the partners in a private firm, whether of bankers or traders, are men who have the sole ownership of the business, and are responsible to its creditors to the full extent of their fortune. They are, too, generally men who have a practical acquaintance with the business, most of them having been brought up to it, and gone through the grades necessary to a familiarity with its details. The heads of the trading houses of every country are generally men of this sort, and know how to make, buy, sell, and handle the goods of their line of business. As to banking it is well known that the partners in the great private banks of England have generally had a practical training in the office, many of them having entered early and gone through the grades of each department exactly as if they were to be subordinates all their lives.

But it is impossible that conditions like these should be found in a number of men selected for the board of a joint-stock bank, or of a manufacturing company. They have not, and cannot have, the technical knowledge that partners would have. Hence they must rely much more upon the skilled and trained officers in their employ, upon whose shoulders rest the daily care and administration of the concern. In the sphere of banking such a class of officers has long existed, the necessity for them having arisen many generations ago in Scotland and the United States, and partially so in England. In manufacturing and trading corporations such matters can only be said to be in a condition of slow development. Meantime the question will arise as to what can be reasonably looked for from a body of gentlemen who are placed by law in the position of directors, but who have not practical knowledge of the business to be directed?

To answer this, let us first take the case of a Joint-stock Bank.

When a gentleman takes his seat for the first time at the board of a bank, and particularly one with branches in various parts of the country, he will probably have placed before him reports as to its general condition, the amount of its deposits, its discounts, and its circulation; also the amount of cash on hand and balances in banking centres. He will not, at first, probably understand much about the bearing of these statements, or matters submitted or referred to the board, but will learn later on. By and by, however, there will almost certainly arise matters of which he has some special knowledge. An account may be offered at one of the branches by a party in his own line of business. He then may be able to say to his fellow directors, "I know that firm. They are fairly well off now, but the head of the firm is somewhat tricky. He failed some years ago, when he was in business alone, and his creditors (I was one) generally thought he took advantage of them. You had better be careful what you do with this application." Or, it may be,

he can say the exact opposite of all this; viz., "That firm has not over-much capital, and they have not been long in business. But they are capable and honest; they are the kind of people that get on. Depend upon it, they won't borrow what they cannot pay. You may safely give them credit, though perhaps, not quite all they ask." Or the board may be discussing the case of a customer who is embarrassed, the question being whether the bank shall support him or allow him to fail. Here a director who is in wholesale trade, and has customers of his own, may give valuable *advice*, based on his own experience; or, it may be, valuable information as to the antecedents of the person concerned.

As time goes on, the new director will acquire a knowledge of the leading customers of the bank, and their lines of discount, or their loans and the security held therefor. The knowledge that such a director acquires by moving about in the commercial world, will be of great assistance in enabling him to form a judgment with regard to many of these accounts, and specially if the question arises of an application for a temporary advance without security. In such a case, the information possessed by a single member of the board may be of invaluable assistance to the whole, in arriving at a safe conclusion.

In time a director may acquire sufficient knowledge of the theory of banking to form an opinion as to the general course of its business; namely, as to whether it is extending its discounts too widely or not; whether its loans are properly distributed; whether the reserves of the bank are sufficient and in proper shape, and other questions of general policy, which can only be properly considered by a man of experience.

In the case of a director of a manufacturing company—let us say, of a large saw-milling establishment—a director who is not a practical lumberman may form an idea as to the financial position and banking arrangements of the company, and whether they are doing too much or too little business for their capital. In time he may be able to judge whether the cutting of timber is proceeding economically, and whether the outcome of logs is sufficient for the money expended on a certain camp; whether the drive is well managed, whether the mill itself is producing all it ought to do, and of the right proportion of qualities. If a responsible foreman or manager is to be engaged, he may have special knowledge of applicants, and so on. The same principles will apply to the management of every kind of manufacturing enterprise, whether it be a cotton factory, an iron foundry, a sugar refinery, or any other of the diversified industries of the country. In all these, as well as in the sphere of banking, a body of men of business experience and general intelligence may render aid of a highly valuable character, even though they have no knowledge of the technique of the business.

GENERAL QUALIFICATIONS OF A BANK DIRECTOR.

Proceeding to the general characteristics that should be sought for in the director of a bank, it may be said that:

(1) A bank director should be, in the first place, a *man of means*. The law itself prescribes this, to a certain extent, for it orders that the director must hold a certain amount of stock, the amount being proportioned to the capital of the bank. But the prescribed amount is small compared with the responsibility of the office, and it might, with advantage, be largely increased, and doubled or trebled in the case of an ordinary director, and quadrupled in the case of a president. But even then a man would be thought poorly qualified to direct the affairs of a bank whose means did not extend beyond such a minimum as that. The *amount* of wealth implied in the term "man of means" should be such as gives a man importance and standing in the community, and causes him to be looked up to by the people generally as a man of capital and substance.¹⁴

It would be well, as a rule, in selecting men of wealth for directors to give preference to such as have been the architects of their own fortune. There are exceptions to this, of course; but it will be found, as a rule, that such men know the value of money better, how it is gained, and how it is lost, what is safe and what is not. A man who has made a success of his own business is likely to be able to direct other affairs successfully.

(2) A bank director should be a man of *character*, respected in the community he has lived in, with good antecedents and connections, a man of whom it could be said "that his word is his bond." He should have a character, too, for good judgment, prudence and common sense; such, for example, as would be made a trustee of an estate, or executor under a will. If he is a director in one or more trading corporations or in an insurance company, it will be all the better, as evidencing that other men think well of him and can work with him in positions of responsibility.

(3) A bank director should be, as a rule, a man of *influence*; that is, he should be able to influence others, and therefore to influence business to the bank. There are in every commercial centre men of both means and character, who are so wrapped up in their own concerns as scarcely ever to mingle with their fellows; commercial recluses in fact, who know a mere nothing of commercial affairs in general. Such men, as a rule, would make very indifferent bank directors. What is wanted in a bank director, amongst other things, is the power of *influencing business*, and the capacity for bringing good accounts to the bank.

(4) It is desirable that there shall be, on a bank board, men who represent and have connections in the leading lines of business in the country. The applications for loans from a bank come from men of different trades and occupations, and it is obviously useful to have, at least, one

¹⁴ In using these words it should be remembered, that wealth and substance are relative terms. A man is looked upon as wealthy in a village, who would by no means be considered such in a town or city. Similarly, the wealthy man of the large town or small city would be accounted nothing of in London or New York. When, therefore, it is laid down, that a bank director should be a man of means, the measure of his wealth must be estimated according to the rule of the place where the headquarters of the bank are situated.

person on the board who has special knowledge of the trade carried on by the applicant. Such a one can give valuable hints to his fellow directors or a manager with regard to accounts of people in that line of business: always under the condition, however, that they shall not be rivals of his own. In that case, his judgment would be apt to be warped.

(5) A bank director should be a man who can work in harmony with others. A cross-grained and self-opinionated man, a man who considers that all wisdom is centred in himself, and cannot bear contradiction, a man who is unable to "give and take" but must have his own way in everything, and at all times, is not suitable for a bank director. At the same time no man sitting at a bank board should be content to be a mere dummy, unable to give an opinion or to maintain it, giving way at the least sign of dissent, agreeing with everything and having no mind of his own about anything. A board composed of men of that kind could not *direct* anything.

(6) A bank director should be a man who can give sufficient time to the affairs of the bank to make himself acquainted with them generally, who can attend board meetings with sufficient regularity as to make his influence felt.

(7) A bank director, lastly, should be a good judge of the capacity of *men*, for a most important part of his duties is to make appointments to the higher offices.

A BANK DIRECTOR'S DUTIES.

Such being the qualifications of a bank director, it remains to be considered what may be counted as his *duties*, and how they should be discharged; in fact, what a director should do, and what he should not do.

(1) It is clearly the duty of the directors to see that the officers of the bank, especially those of the higher grades, be men of proper capacity; also, to see that they are properly remunerated according to the general standard in such matters, and that proper provision is made for them in case of retirement in advancing years.

(2) It is above all the duty and province of the directors to see that the loans, discounts, and investments of the bank are made with due caution and on proper security. No attention to other departments of the business can atone for inattention to this. For in this lies the key to success or failure. It is the *one thing* to which all others are secondary. The directors, therefore, will see that all important transactions of that kind shall be submitted to them for consideration, saving only such small matters as may safely be left to the officers. They will also require statements to be laid before them at every meeting of all important transactions that have transpired in the interval. And to such statements they will give such attention as will enable them to have a clear apprehension of the business the bank is doing.

It has not seldom happened in the case of the failure of a bank that there were on its board of directors men of conspicuous ability in their

own line of business; and the question was generally asked, how was it that such men could allow the bank to drift into such a position? They would never have dreamed of allowing their own business to become so involved; how was it they allowed it in the case of a bank at whose board they regularly took their place? It is no proper answer to such criticism to plead that they were not informed of the transactions by which losses had been sustained; still less that they had not time to examine statements put before them; least of all that they trusted all such matters to the manager. There are undoubtedly numbers of matters that must be trusted to the manager; and it cannot be pretended that a board of directors shall be acquainted with the multitudinous small transactions that make up so much of the total business of the bank. But experience shows that as a rule it is not in the smaller transactions of a bank that losses arise of sufficient amount in the aggregate to cause a bank to fail. It is invariably the case that the failure or embarrassment of a bank arises from the failure or embarrassment of a comparatively small number of its largest customers. The bank may have five thousand small customers whose transactions no board of directors can take effective cognizance of. But although there will be *an average* of losses from such transactions, the average will never be high enough to cause serious difficulty. But the same bank may have on its books twenty or thirty, or, in the case of a very large institution, with widespread connections, forty or fifty accounts of considerable magnitude. It is within such a narrow circle as this that the storms of the banking world strike.

Now, it is plainly within the power of any board of directors to keep an efficient oversight over such a small number of customers as this. Amongst the circle of large customers, there will be, to a certainty, a proportion that practically do not require watching at all; firms of undoubted strength and capital, whose accounts are so conducted as to give evidence of their soundness. But there will almost certainly be a proportion to which directors should give close attention; make close enquiries of the manager, and be ready to check any signs of irregularity, or what might lead to danger. It is with regard to this smaller circle that the directors should distinctly *not* leave everything to the manager. For if they do, they can, very fairly be held up to reprobation, if matters go wrong.

With regard to these, the directors should require constant and full *information*. Long and voluminous lists of comparatively small transactions it would be impossible for them to keep track of, unless they were prepared to spend the whole of their time at the bank. But any body of directors who take their duties and responsibilities seriously can keep track of this small number of accounts within the time that directors may reasonably be expected to give to the business. Not that they need never extend their observations beyond this circle. A director may well, at times, extend his observations over transactions of a second and third order of magnitude and particularly those with regard to which he has

special knowledge. And beside this duty of individual directors it is desirable for the whole board, at times, to examine the whole business done at a certain branch, and if needful to give directions respecting it. By following this method the whole business of the bank can be brought under review at least once a year. But let it be repeated, the circle of important accounts should be before the directors, not once a year, nor even once a month, but constantly. For when a large firm or trading company begins to go wrong, it is apt to go wrong at a constantly accelerating pace. And its course may be something like that of runaway horses—rapidly getting beyond control and rushing on to destruction. In one short month all this may develop, and if directors intermit their attention to large accounts, even for this period, they may awake to find that one of them has gone wrong to such an extent that an enormous loss is staring them in the face. It was one large account, rapidly developing mischief, that ruined the Royal Bank of Liverpool. Four large accounts brought the City of Glasgow Bank to the ground. Yet the hundreds, indeed it may be said, the thousands, of its smaller accounts, even of this bank, were on as good a footing as those of the rest of the Scotch banks. In this case, too, the course of deterioration was very rapid. The same may be said of the Western Bank of Scotland. And, referring to Canadian banks, one of the largest of them, the Commercial Bank of Canada, was ruined by one account, another by some six or seven, others by two or three.

It would be a desirable point of administration for the directors of every bank to require to be laid on the table, at every meeting, a statement of all advances amounting to a certain sum and upwards, at all points; the amount of the minimum to be proportioned to the magnitude of the whole business. This should not be in too much detail, but in such a shape that it could be readily taken in and understood at a single sitting. If details are wanted in the case of any account, they could be called for and furnished by the general manager at the next sitting.

It is needless to add that if the bank has large investments, such as considerable holdings of debentures and bonds, these should be examined and criticised by directors also. They generally consist of considerable sums of any one security, and may be looked over without a great expenditure of time.¹⁵

¹⁵ These observations are founded upon the theory that the board of directors should consist of men who are not only men of character and influence, but men who understand the business of the country, and also have a substantial interest in the bank. It is a fact within the author's knowledge, that in a certain great banking corporation that failed the directors collectively held no more stock than would have been considered much too small for any one of them to hold individually. This was before the present Banking Act was passed. Yet the capital of this bank placed it in the front rank of the banking corporations of the country. These directors, too, consisted almost wholly of men who had no practical acquaintance with business.

In another case of the failure of a great bank in the same part of the country, the directors were largely retired gentlemen or politicians. On one occasion when an important business account was under discussion by the board, one of its

THE PRESIDENT.

In considering the qualifications and duties of directors, one of the most important questions is as to the position of the president or chairman of the board. With regard to this important matter wide differences prevail in banking practice. In England and Scotland, the presiding officer is, as a rule, called not *President* but *Chairman of the Board*. He gives, as a rule, not much more time to the bank than the other directors, but is supposed as chairman to represent the bank more perfectly before the public and also to give more special study to its affairs. But he does not sign statements; and in the reports of annual meetings his name, as a rule, has no more prominence than that of other directors.

In other cases, however, the chairman (or president) gives more active and personal attention to the bank than his confreres; giving more or less of daily attendance; being ready, therefore, for any consultations with the manager or for conferences with important customers. The chairman, if he continues in office, year after year, as he may do, and giving a large part of his time to the affairs of the bank, may become almost a practical banker himself, and able to exercise an intelligent and capable supervision over every department of its business. This, however, presupposes that he shall be not only in daily attendance, but give as much time and attention to the bank as if he were senior partner in a firm. When a great private banking or commercial firm has assumed the form of a joint-stock company, it is natural that the late principal partner shall become not only the chairman of the board, but exercise the functions above described. In this case, the manager or general manager will have less importance than in the case of a company that has been "joint-stock" from its foundation.

In the United States an entirely different order of things has gradually come to prevail, though it does not prevail universally even yet. But in a large majority of banks the president is a salaried officer of the institution, performing the same duties as the manager or general manager of an English or Canadian bank. He is not a merchant or man of business, having a position in the community irrespective of his position in the bank, like the Chairman of an English board. He is a professional banker, and has generally passed through the grades and risen from the ranks, having been promoted, from one position to another, as other officers have been.

There are both advantages and disadvantages in this method. The

members, a retired admiral of the British Navy, after the matter had been discussed for some time exclaimed, "Well, I can't express an opinion. I know how to sail a ship, but I'll be hanged if I know anything of such matters as this." One of the directors of this bank, almost the only commercial man amongst them, confined his attention to such small advances as his own business led him into connection with. These came to be referred to, at board meetings, as Mr. M.'s proteges. Needless to say, that the bank suffered no appreciable loss by this class of business, whilst it was overwhelmed by the losses arising out of political and other loans of great magnitude.

advantages are that such a president carries more weight and authority in the bank's daily administration, by reason of his being a director. The disadvantage is, that he does not move about in the commercial community and acquire information as a commercial chairman of the board would do. This is a serious practical drawback. It is a disadvantage also to the man himself, that though a salaried officer, and his livelihood being dependent upon his continuance in office, he is subject to an annual election. There is this further to be said, that it is much more difficult for the rest of the board, in case of need, to criticise unfavorably the actions of one of their own number, than if he were simply an officer and not a director. And there is more danger, under such an arrangement, of matters being left wholly to the president and of his being allowed to administer the affairs of the bank without efficient check.

But some American bank presidents are men who correspond to the English chairman of a board and who have large interests outside the bank.

In Canada, the position of president is somewhat midway between the English and the American position. He is always styled president, and not chairman. And he signs statements and documents, especially the annual report to the stockholders. But he is in no respect a salaried officer, but a man moving about in the community, and having interests of a business character or otherwise, apart altogether from the bank. He is always a man of position, and generally a man of wealth. Sometimes he has been the founder of the bank, and is the largest stockholder in it; naturally therefore being chosen president year after year. In this case he will have a somewhat dominating influence, overshadowing the other directors, and exercising more influence in the management than all the rest put together. This influence, moreover, is immensely increased by the fact that under the Canadian law votes at the annual meeting (when directors are elected) can be by proxy, and that it is an almost universal custom for such proxies to be given to the president. He thus carries the election of the directors in his hand. These are well aware of it, and the fact cannot but affect their course of action. For the power that proxies give is no mere nominal one in practice. It has more than once happened in Canadian banking that some director, having given umbrage to the president, has found himself rejected on the day of the annual meeting, much to his surprise and annoyance, solely by the president's proxies. Such a president is apt, at times, to assume functions that properly pertain to a general manager; a condition of things that is generally detrimental to the bank's interest.

There have been, however, presidents in Canada who corresponded much more closely to the American officer of that name. But these have invariably been men of exceptional ability and experience, who have been general managers, and were given the title and position of president as a matter of honor, without the smallest difference being made in their duties or remuneration.

COMMITTEES OF DIRECTORS.

In some banks, especially those of great magnitude and widespread interests, it is customary for one or more *committees* of the board to be formed, each committee having a supervision over certain branches or of certain departments of the business. It cannot be considered a desirable plan, as it tends to divide the interests of directors and prevent their having an intelligent comprehension of the whole. It can never be forgotten that every director is responsible to the stockholders for every part of the bank's administration, and that it would be no proper answer for a director in case of heavy loss or disaster to say that it did not occur in his department. On the other hand, a small committee consisting of—let us say—the president, the vice-president, and another member of the board, may sometimes be formed into a *committee of reference*. This plan, however, will only work when the members of such a committee agree to give, and do actually give, more time to the business than the rest of the board. But all such arrangements for committees are apt to work disadvantageously because of their tendency to shift responsibility from the general manager and to prevent his exercising the full measure of his capacity in his office. Every benefit that could reasonably be expected from such a committee would be attained by frequent meetings of the board, say, twice a week, and by making it the interest of directors to attend. A daily meeting, which has been practiced in some cases, is apt to degenerate into an occasion for talking politics or gossip.

LOCAL DIRECTORS.

These are authorized by the Banking Act, but the law gives no power of management, and places no responsibility upon such directors, though they may be of great service in distant branches, provided they are men who can influence business, or give useful information to the manager. The best local director to be found will sometimes be the solicitor of the bank, provided he has no other interests.

CHAPTER VII.

OFFICERS OF AN INCORPORATED BANK HAVING BRANCHES—THE GENERAL MANAGER.

THE GENERAL MANAGER—THE INSPECTOR—CHIEF ACCOUNTANT—SECRETARY.

THE office of general manager is the last stage in the evolution of the government of a joint-stock bank, so far as officers are concerned.

The work only arises when a bank has arrived at the stage of development where the bank has many branches, each with a manager at the head of it. To supervise all these subordinate managers, to give them directions from time to time, and to make all their operations harmonize with the workings of the bank as a whole under the directors, is the duty of the general manager. The title implies not merely that he has heads of departments under him—for that the manager of a single office has—but that he has *managers* under him, each of whom has the control and responsibility of his own office. The position of general manager is somewhat analogous to that of an admiral of a fleet, which fleet consists of a number of ships, each being under the command of a captain who is supreme in his own sphere. The first and second officers in such a ship will take their directions from the captain, while he in turn is subject to the order of the admiral. The admiral himself is subject, as to matters of general policy, to the Government. It is the admiral, however, who is looked to to insure success in the operations of the fleet. If these operations are successful the honor is his; if unsuccessful, the disgrace of failure appertains to him. The analogy between this and the functions of a general manager is very close. He is a servant of a board of directors who are entrusted by law with functions of government. But for actual and effectual carrying out of these functions they are largely dependent upon the general manager. He gives them advice both as to matters of general policy and as to the details of operations. This advice they may take or refuse at their pleasure. They may modify it, suggest changes, or, if they think well, reject it. This they have the power to do. But to reject entirely the advice of a professional banker in any matter of importance, involves responsibility, and directors will scarcely take such a step unless for very good reasons. This, certainly, should only occur rarely in practice, for to be often rejecting the advice of a general manager would be a sure indication for the necessity of a change. His position with regard to the managers under him is one of undisputed authority. It is to him they look for direction as to the course of the business of the branch. And his orders they must obey. Otherwise there would

be danger of serious mischief to the bank as a whole. For branch managers to fancy they can appeal to the board against a general manager's directions would speedily bring about a dislocation of the whole business. Each branch manager, however, is supreme in his own sphere. To him his officers look for directions, and his orders they must obey.

There may, of course, arise extraordinary circumstances in which this order of things is set aside, but the foregoing must be taken as ordinary practice.

To understand properly the responsibilities of a general manager it is needful that the powers and functions of each branch of the bank should be understood. Every individual branch carries the full powers and responsibilities of the bank within itself. To the general public and to the body of customers, the "branch" is the *bank*. For every dollar of money deposited in the branch the whole bank is responsible. For every engagement to lend money or to transmit money the bank is responsible. This is the strength of the branch system so far as the public is concerned. But there is a reverse side. For every failure in these respects the whole bank is responsible. If at a certain branch, even the least, there were a failure to perform any of the engagements it had entered into, the whole bank would be discredited. It is under these circumstances—and they press upon him constantly—that a general manager exercises the functions of his office. These functions may be summed up in one sentence. It is his business to see that every branch during every day is properly equipped and managed; that it has a sufficient and immediately available supply of money of every kind for the wants of customers and the public; that the money lent at the branch is lent safely and according to directions; that the bills discounted are good bills; that the securities taken for loans are according to law; that delinquent customers are sharply looked after; that proper men are appointed to the various departments; that the accounts are properly kept; that proper statements of the business are forwarded to be laid before the directors and to be reported to the Government, and, finally, that the cash on hand always corresponds with the amount shown in the books.

This is a large line of responsibilities, but they, every one, fall upon a general manager day by day. It is to enable him to fulfil them that he requires a staff of officers whose duties are of an entirely different description from any that have been named hitherto. The work of a general manager is thus:

1. A work of supervision.
2. A work of audit.
3. A work of control.

To enable him to perform these functions he has in his department:

An assistant general manager.

An inspector and officers under him.

A chief accountant and officers under him.

A secretary with officers under him.

In addition to these will be an officer in charge of the stock registers and dividends. The most important officer in the department is

THE INSPECTOR.

This officer is usually a man of considerable banking experience, and he has generally been a branch manager. He visits the branches and makes a perfect audit of the accounts and examination of the cash and securities. The time of the inspector's visits is confidentially arranged with the general manager, so that his arrival may not be anticipated and prepared for. For if it were, the object of the visit would be frustrated.

In former days, when practical banking was not so well understood, and no officer was set apart to the work of inspection, it was customary for the president to make a tour of the branches, taking an accountant with him to assist in the details of the inspection. But so little was thought of the importance of secrecy in these visits that it was generally known throughout the branches that the president was on his annual tour and might shortly be expected. It was even sometimes mentioned as an item in the daily papers. Of course, in that condition of things preparation was made for his visit. It is known to the writer that on an occasion of this kind the manager in a large city branch was actually advised that the vice-president of the bank would be visiting the city shortly and would take the opportunity of examining his branch. At that very time great irregularities were occurring in the management, improper loans to a large amount being carried on by overdrafts, and false statements sent week by week to the head office to conceal them. The manager, being apprised of the approaching visit, took the pains to transfer all the current accounts to a new ledger and managed, by borrowing checks and concocting fraudulent entries, to make the irregular accounts appear correct. The visit took place, the books were balanced, the accounts were examined, and all was reported in order. Shortly afterwards, circumstances transpired which rendered further concealment impossible. The manager came to the head office of the bank and made a confession to the directors, though he did not confess all. A trained officer was at once sent down to make examination. The whole machinery of fraud was then brought to light, and the manager's trick exposed of a new ledger being opened long before the old one was filled up, and bogus checks credited to the fraudulent account. This case is referred to in a subsequent chapter on frauds, but it is noticed here to show the folly of the old inspecting system.

The importance of the audit and examination by an inspector will be evident when it is considered that it is by reports and statements from the branches that the whole bank is governed. It is only by summarizing these statements that a general manager can know, for example, whether the law with regard to circulation is being complied with, or whether the bank as a whole is holding adequate reserves of cash and available funds. It is by statements from branches that the head office can judge whether

they are doing sound business and following the lines laid down for the government of managers. *Yet he can not know that the statements are correct except by actual examination on the spot.* Whether there actually is so much cash at a certain branch as is represented, whether the bills discounted are secured as they are reported to be, whether the loans are really endorsed or guaranteed by the parties whose names are entered in the lists, these and many other important matters can only be proved by actual examination. An inspection, therefore, is of vital importance. No general manager and no board can be on sure ground with regard to the business of any branch until an inspection has been made. But to be of value the inspection must be thorough. An inspection carelessly made is more dangerous than none at all, for it lulls into a false security.

A case once came under the writer's notice of a weak manager, having allowed some of the securities for an important account to lapse, and being afraid to confess, went on reporting advances to be covered as before. The supposed endorsers were good beyond doubt and, according to the statements rendered, the account was working satisfactorily. But when the office was examined the inspector failed to notice that the names of the supposed endorsers were not on the paper. They had in fact withdrawn their names, having a well-founded suspicion that the party was not doing well. This, however, the inspector failed to notice. The head office being lulled into a false security, the account went on as accounts usually do. The advances increased considerably, but the business was reported as enlarging and the customer as prospering, and the endorsements made the account perfectly safe—*apparently*.

But a subsequent examination of the office revealed the fraud. Twice before, the inspecting officer had failed to notice it, but he discovered the real position at last. The bank, instead of advances well secured, had no security at all; the customer's affairs were in a bad condition; he had been going from bad to worse ever since the endorsements were withdrawn, and was utterly bankrupt. Now, had the false statements of the manager been discovered at the first examination, the account would have been stopped before much mischief had been done; the customer would have failed, but the bank would have made but a small loss. As it was, the loss finally sustained was sufficient to wipe out all the profits of the branch for years.

The inspector's business is therefore one of *verification*. Examinations must be made down to the minutest detail. In counting bundles of notes, for example, an inspector must not make a cursory handling of each bundle, but must handle every note. He must not excuse himself from this minute examination by thinking, "Oh, it is impossible that such a manager or such a teller as this can be wrong." The very reason of his office, and the work he has to do, is to *prove that they are not*. If managers and tellers had never done wrong, and never could be guilty of irregularities and frauds, there would be no need for inspections at all. In law every man is considered innocent until he is proved guilty. The

inspector who does his work thoroughly will proceed on the assumption that everything is wrong until he has proved it to be right. He will be specially careful in examining cash to guard against a mode of manipulations by which a parcel can be handed him twice over. This has been done to the writer's knowledge and a shortage covered up thereby. In examining the checks on hand he will be careful to notice any indication that they have been *borrowed*. This, too, has been done and inspections passed successfully when large shortages existed at that very time.¹⁶

It is important in making examinations to notice any slight irregularities and probe them to the bottom, for a very trifling irregularity may be a key to the discovery of numbers of others extending back, perhaps, for months and even years. For example, the books of a certain branch on being examined by an inspector were found to be irregularly balanced. This was a key to irregularities that had been going on almost from the day the branch was opened. It is within the writer's knowledge that these books required to be checked over again from the very opening of the branch and much of them absolutely rewritten. The final result of this was that after the irregularities had been rectified, the manager, who was of course dismissed, had to make good a defalcation of between seven and eight thousand dollars. In this case, if the inspection had been loose and inefficient the irregularities would certainly have gone on for many months longer, and the deficit have grown to much larger proportions. It should be noted that the reports and statements made to head office from this branch were always in order. No amount of attention there

¹⁶ A sad revelation of fraud of this sort transpired in a branch office of an important bank many years ago. The senior teller was a man highly respected in the community. He had long held his position, which was an unusually good one. It was, in fact, more like that of an assistant manager than a teller. He occupied a beautiful place in the outskirts of the city, and his pretty pony carriage was well known to the habitués of the streets. But one day a rumor got about that there was something wrong with his cash, that he had been suspended; then, soon after, that he had been dismissed. It proved to be too true. His face was seen no more in the bank and his pony carriage disappeared from the streets; his effects were sold and he left the city never to return. The truth gradually leaked out. A considerable shortage was discovered in his cash. Whether it was ever made good the author is unaware, but it is an undoubted fact that the shortage had been going on for a considerable time, and that the office had been inspected more than once whilst it existed. It then became known to bankers in the city that the teller had observed most carefully the movements of the inspecting officer and had succeeded more than once in ascertaining very nearly when a visit might be expected. In preparation for this he had on each occasion borrowed checks from his friends in the mercantile community, of whom he had many, which checks were counted in amongst his cash when examined. It so passed muster. The checks were of course never presented. This, however, can not often be repeated. The resource finally failed him and discovery followed.

Upon this case a remark or two may be made. The manager should certainly have noticed the style in which his officer was living. His salary would not have allowed him to occupy such a cottage with grounds and to keep a pony carriage. This tendency to overspending should therefore have been checked at the outset. In which case all the subsequent sad developments might have been prevented. It should be said in addition that it is almost certain that there was some looseness in the style in which the inspections were carried on, otherwise the shortage would have been discovered at an earlier stage.

could have resulted in the discovery. But discovery immediately resulted upon an inspection on the spot. Yet there was no anterior reason why there should be more suspicion of this branch than of any other, for the manager, though not a practical banker, was a man of high standing in the community, and was able from his own resources to make good the deficiency.

This audit and examination is a sufficiently onerous business in itself to occupy all the attention that any man can give to it. In the examination of the teller's department all his care and vigilance will be needed to ensure that the cash, including checks and cash items, is exactly as has been represented. It has been known that a teller by clever sleight-of-hand succeeded in passing off a bundle of notes twice when his cash was being taken over by a successor. The examination of the discounting department is a far more difficult and laborious matter, for here he should not confine himself to the mere checking of the amount of each bill and noting whether the total agrees with the books, but ascertain *whether every bill is in legal form, properly drawn and endorsed*, proper authority being held for such as are signed by officers of corporations; and also that proper vouchers have been received for all the bills remitted for collection. It is also his business, as has been shown, to see that the securities for loans are really as has been represented to head office.

But when an inspector goes beyond this business of verification and expresses opinions upon the soundness and goodness of the names or the safety or otherwise of the discounts of the office, he is going beyond his province. For in this case he is conveying not information but simply opinions, for the formation of which he has only had slender opportunities. An inspector visits a branch only at long intervals, and can not possibly have the materials for forming a judgment as to the goodness and soundness of the borrowing customers themselves. It is his business to see that the various securities are *there*, or that, if sent away, there are proper vouchers for them, and also, what should never be overlooked, that they are exactly as they have been represented to head office. But when he not only certifies of the existence of bills and securities, but makes reports upon their soundness or value, he raises two questions: one, as to where he gets his information, and the other as to the soundness of his judgment. As to information, in almost every case he will get it from the manager. His report, therefore, will be a mere echo of the manager's opinion, and consequently of no value whatever as a check. As to soundness of judgment, that is a quality not always possessed by an inspector. It has been known that an inspector who was a keen and vigilant examining officer was lamentably deficient in judgment as to the standing of merchants. To suggest to head office that the advances to a certain customer were not on a good foundation because they fluctuated so much, or that, in considering the position of a certain firm, if certain assets were left out they could not be considered solvent, was not calculated to enhance the value of an inspector's opinion. Yet both instances have oc-

curring in banking practice. There can be no doubt, therefore, that for a general manager to get into a habit of relying on the *opinions* and judgment of an inspector as to the soundness of the advances at branches, is dangerous. The value of an inspector's work is when he reports what he has seen, and communicates to a general manager what the latter cannot otherwise know; such, for example, as that such and such an account is a very inactive one, or that in another case the deposit account of such a customer showed him to be constantly short of money.

It is generally placed upon the inspector to report upon the *officers* of the branch. But here again he should only report as to what comes under his own observation. He can see how an officer does his work during an inspection, and how the books in his charge have been kept; also whether he makes out statements quickly, and, in the case of a teller, whether he is accurate and courteous in attending to customers. But to express an opinion as to the general value of an officer, and whether he is worthy of promotion or otherwise, is to go beyond his province, for in the course of a few days he cannot have sufficient opportunities of observation to enable him to form an opinion that could safely be acted upon.

Above all things the error must be avoided of allowing an inspector to give orders and directions to managers. That is the business of the general manager alone. If an inspector is allowed to do this, there will be the proverbial danger of having "two masters" whom it is impossible to serve. It is only when the office of inspector is held by an assistant general manager, as it sometimes is, that orders and directions can properly be given by him. But in that case the orders are given invariably by the officer as assistant general manager, not as inspector.

In the case of an inspector the old saying applies, *Quis custos custodiet?* Who is to inspect the inspector? Who is to see whether he is attentive, efficient and reliable? It may be thought that the directors are the persons to do this. But the work can only be properly performed by a professional banker, and the proper officer to examine the inspector's work is the general manager.

Directors sometimes conceive that an inspector should be independent of the general manager, and that his reports should be a check upon his superior officer. And it has been known that an inspector has endeavored to work himself into that position. But it would be dangerous, indeed, for directors to listen to such overtures, for, if carried out, such a course would introduce an element of anarchy and confusion into the business. There would soon come to be two governing officers—two heads—each having independent authority, but the one more in the confidence of the directors than the other. There would inevitably be friction in that case, conflicting ideas of management would be introduced, contradictory directions could not fail to be given to managers of branches. These officers would soon discover the real state of things, and ascertain *whose* directions they were to follow. This would naturally be the officer who was in the confidence of the board.

To put the case in concrete form: The general manager would, for example, give directions that such and such an account was to be handled carefully, and on no account to exceed the limit fixed. The inspector, however, might say at his next visit that the account was a very satisfactory one to the board, and that close restriction was not desirable. The branch manager, therefore, being placed between two fires, would lose all sense of responsibility to head office, and as he could not please both his superiors he would try to please the customer. The general manager, under such a state of things, will come to be a mere "figurehead," having no more controlling power than a secretary.

This is not a fanciful sketch of what might be, but a description of what has actually occurred: anarchy and misrule prevailing in the establishment, and losses gradually developing which ultimately almost brought the bank to a stop. Yet the board of directors was one of the ablest bodies of men ever brought together to administer the affairs of the bank.

It will thus be seen that a clear understanding of the inspector's real functions and duties is of essential importance to a joint-stock bank. His proper functions are important enough and difficult enough to perform without intruding into the office of the general management.¹⁷

THE CHIEF ACCOUNTANT.

The chief accountant's position is of such importance that he is required to join with the president and general manager in certifying the correctness of the returns made to the Government. He receives the balance-sheets of all the branches, examines them, compares them, checks the items, and finally summarizes them in one general statement of the cash, the deposits, the loans and discounts, and all the other items required by the Bank Act. It is by these statements that the board and general manager, as advising them, are guided in the bank's general administration, and as it is simply impossible for a general manager, still less a president, to verify the voluminous details from which the statement is made up, they must, perforce, and in the nature of things, depend on the chief accountant for the accuracy of what they certify. The check upon this is the *inspection*. For the inspector examines the head office department, as well as every other branch of the bank's operations.

¹⁷ As there are exceptions to every rule, it is, of course, conceivable that an inspector on visiting a branch may discover cases of glaring violation of rules, disobedience to orders, or even positive fraud. What, it may be asked, is he to do in such circumstances as these? It is his duty at once to communicate to his head office in cipher, by telegraph, or by telephone, if he can, and ask for instructions. Meanwhile, he may reasonably take upon himself to act in the case, stopping, it may be, some improper discount about to be put through, or even going the length in an extreme case of taking charge of the office himself, pending instructions. But he would in any such case take such a course under responsibility and incur the danger of severe reprimand to himself in case he made a mistake of judgment.

THE SECRETARY.

In the general manager's department few officers render more useful service than an active and vigilant secretary. This officer should be much above the rank of a clerk, although his faculty may not be in the sphere of management. Indeed, it has happened that a secretary high in the confidence of the board and highly efficient as a secretary may prove a lamentable failure on being entrusted with the responsibility of management.

It is his business to keep all the records of the general manager's department (including the voluminous statements and returns made thereto by branch managers), after they have been examined and action taken thereon. An efficient secretary will not only keep such records, but remember their general contents, and be able to answer the general manager's questions about them without loss of time. All the correspondence of the general manager with managers of branches will pass through his hands, and here again will be found the importance of an accurate memory so developed that he can answer readily such questions as are constantly arising in dealing with the business of branches. "Was not such and such a manager advised about this matter some time ago?" the general manager will say to himself on reading a branch manager's letters, and may thereupon dictate a letter of strong disapproval of the manager's conduct in the matter. But reference to a secretary might correct the impression that was leading to the remonstrance, and show that this particular matter had never been corresponded about at all. Or the error may be in the other direction. "Did we not order such and such a manager to discontinue taking bills with the name of such a one?" the general manager will say to his secretary, and yet here he is passing such bills through his books still. "Certainly," the secretary may reply, and proceed to turn up at once the copy of the letter he well remembers to have been sent. On this a letter of remonstrance will be written of a character that no branch manager would dare to disregard. For want of a watchful secretary, a general manager may even himself give conflicting orders after intervals of time, his judgment at one period not being exactly the same as at another period owing to a difference of environment. A general manager may, under the influence of some depressing news, take a pessimistic view of matters in general, and begin to dictate a letter to the manager of a branch expressing severe blame for permitting a certain account to assume the position it was reported to be in. Here a watchful secretary may interpose an observation like this: "I think that matter was the subject of correspondence some months ago; will you allow me to refer to it?" He does so and finds that the manager at that time reporting upon the account asked permission to continue certain advances for a time, giving reasons therefor, which request was allowed. "The time has not yet expired," the secretary might say, on which the general manager would hold his hand, and instruct the secretary to

be watchful of the time, and see that the paper referred to was then retired.

Thus the general manager is in the position of managing partner of a large establishment who thoroughly understands his business but has trained men about him, each with strictly defined lines of duty, all of whom must be in his confidence, all obeying his orders, yet with liberty to make suggestions, all acting together like a complicated machine, wheel within wheel, all moved by one central power, and all converging to the one uniform end, namely, the good of the whole body of the proprietors of the institution.

CHAPTER VIII.

THE SUCCESSFUL MERCHANT.

CONDITIONS AND CAUSES OF SUCCESS—IMPORTANCE OF CAREFUL BUYING—THE OFFICE—THE WAREHOUSE—TRAINING IN BUSINESS—ELEMENTS OF A GOOD SALESMAN—KNOWLEDGE OF GOODS—KNOWLEDGE OF MEN.

BEFORE a banker can do a successful business, there must be successful merchants, manufacturers, or farmers, in the community.

It is for this reason that the consideration of their business comes at this stage.

Some years ago there was published in England a very readable book entitled "The Successful Merchant," in which was described the career of a Bristol trader who was not only a successful man himself, but the founder of successful firms that bear his name to this day. The success of this merchant, it is evident, was not due to speculative ventures by which some men seek to acquire a fortune rapidly, but to perfect knowledge of his own line of business, combined with industry, shrewdness and rectitude. It becomes evident, too, that this is the reason why the business he founded has continued to flourish in the hands of his successors.

It is essential to the success of a banker that the mercantile customers with whom he deals shall be on the whole successful men; otherwise they will cause him loss and embarrassment, even though he holds what is called "security." For security in many instances fails to secure.

It is equally essential to a merchant that *his* customers shall be also successful. If they are not, their failure will result in even a larger proportion of loss, seeing that generally the merchant gives credit without security at all.

The losses of both banker and merchant may be, and, indeed, not seldom have been, serious enough to bring both into embarrassment, in fact, they continually act and react on each other. The study of the causes of success and failure is therefore one that practically comes home to both.

CONDITIONS AND CAUSES OF SUCCESS.

Let us first consider the conditions and causes of success. When a person enters upon any line of commercial business, as distinct from mere speculation,¹⁸ he will find that the first element of success is knowledge of goods: that is, what goods are, where they are to be bought to advantage, what is the right time to buy them and how to place them to advantage.

¹⁸ The difference between the merchant and the speculator is that the merchant handles the goods he deals in, and therefore requires to be a judge of their quality and suitability; while the speculator rarely handles the merchandise in which he speculates, and could not tell good cotton or grain from bad. His business is simply to watch the markets, and to buy or sell on change. For his operations he needs neither a warehouse nor stock.

As he progresses he will discover that the second element of success is knowledge of men; that is, whom to employ, what to give them to do, to whom to give credit and whom to avoid. The first is to be acquired only in the warehouse, the second can be learned best in the office or "on the road." When, with these two, is combined a reasonable capital, together with common sense, enterprise and integrity, success may be said to be not problematical but reasonably certain.

A young man who enters a mercantile warehouse, will be employed for some time in learning how to *handle* the goods dealt in; how to sort and arrange them for sale, how to receive and dispatch them with expedition, and generally to become so familiar with the stock as to know where any particular article is to be found and how much of it there is in the warehouse. While doing this, the head of the business will have opportunities of judging the young man's capacity, intelligence and character; also whether he is more likely to be useful in the warehouse or in the office. A young man whose mind is in the business will desire to find out not only how much goods sell for, but how much they cost; also where goods are bought, and from whom. If the goods he handles are not bought strictly from manufacturers, then he will find out who *did* manufacture them, and where. An intelligent warehouse clerk will try to gather information from young men not in the same house, and will, at times, be able to communicate to his principals something to their advantage.

There are, of course, other elements of success in a junior, such as civility, readiness to assist, quickness to obey orders, punctuality in attendance. A good junior will also avoid what mars the usefulness of many a clever employee, viz., an impatience of work, and eagerness to rush away at the earliest moment when work appears to be finished.

Supposing that a young employee has proved himself capable so far, the next step will be to trust him with the responsibility of *selling*. Here his knowledge of goods comes into play. For many of the customers of a wholesale house have only a vague idea of what they want, and expect to be told what goods are in the market; to be shown them and have their merits pointed out by one who knows and can describe them accurately.

If, for example, the warehouse is that of a dry goods merchant, the salesman will have some knowledge of the person he is speaking to, where he comes from, and what is the nature of his business. It would be absurd to show the store-keeper of a backwoods village the goods suitable for a leading town or city store. *The seller must know both his goods and his men.* If the young clerk performs the duty of a seller satisfactorily, in the warehouse, he has taken another step towards ultimate success.¹⁹

¹⁹ It is sometimes supposed that to be able to sell goods successfully, an employee must not be too scrupulous; must, in fact, be willing to tell lies about them. But quite apart from the immorality of this, experience demonstrates that to deceive customers is not to the seller's advantage. The deceived buyer will avoid the warehouse in which he has been deceived. Even if he does not go so

It may not be possible in a large establishment for every salesman to ascertain what is the net cost of the goods he is handling, and to a majority of those engaged in selling, a principal would scarcely think it prudent to give such information. But as a salesman grows in experience he will be sure to exercise himself in this direction. And it is desirable he should; for in the case of salesmen and travelers of experience, they may sometimes be allowed discretion in the selling price of goods. It would obviously be of advantage to a salesman, in using this liberty, to know what things cost, so as to ensure that no mistake was made in reducing the price unreasonably.

A successful salesman or traveler will exercise a good deal of tact in dealing with the peculiarities of customers, and a large amount of patience and perseverance also. Experience shows that a stubborn "no" may be changed into a complacent "yes" by quiet and intelligent persistence. Above all things he will be civil; ready to anticipate a customer's wishes, ready also with suggestions as to what would be satisfactory in case the party does not see the article he wants. But it is a mistake for a salesman to push off undesirable goods on a customer by brag and volubility. The customer who has been overreached in this way will avoid the place in future.

In the life of George Moore, of the great house of Groucock and Co., of London, who used to be called "The Napoleon of the Road" because of his wonderful quickness and energy, there is an excellent story of his success with a retail storekeeper who, after repeated refusals such as would have damped the energy of most men, was at last induced to make a purchase of some insignificant article and thereby open an account. The door once opened, the young traveler took care it should be kept open; with the result that the casual buyer became a valuable customer of the house. The responsibility of a traveler is, of course, much more than that of a salesman in the warehouse. He needs much more tact, more knowledge of human nature, more patience, more perseverance. And, it needs to be added, he will need to be more watchful of his own conduct. Living in hotels, he will be in the way of temptation that does not meet those whose duties are at home.

far as this, he will certainly make a complaint. If he has been deceived by an employee, he will complain to the principal, and the employee will suffer. If he has been deceived by the principal himself, he will probably be more outspoken. In either case he will want redress.

It was said of the late A. T. Stewart, whose retail store used to be one of the wonders of New York, that one element of his success was this, "He always turned the rotten side of the melon up"; a very homely phrase, but highly expressive, as indicating that, if there were anything defective about his goods, he never concealed it. It thus came about that people had implicit confidence in Stewart's goods and consequently flocked to his store to buy them. There are manufacturing firms in England that have built up a reputation by the invariable rule of never stamping their name on an inferior article. They have found the advantage of this in the fact that the name came to have a distinct mercantile value; such, for example, as that of Rodgers of Sheffield, for fine cutlery.

IMPORTANCE OF CAREFUL BUYING.

Pursuing the future successful merchant through his course of preparation, and supposing him to have achieved success as a salesman and a traveler, the next question will be, whether he can be trusted with the responsible function of *buying*.

It is a maxim of trade that "*goods well bought are half sold*." Though the most difficult functions of a buyer are exercised in lines of business where taste and fashion come into play, yet his skill, if he has it, will find ample scope even in dealing with raw materials and great staples. Judgment and special knowledge are required even to buy grain, cheese, timber or iron to advantage.

Passing, however, by these for the present, let us look at the characteristics of a successful buyer of dry goods and fancy goods. Here an essential difference must be noted. While the buyer of grain or any other like commodity may make mistakes, it is certain that the goods he buys can be sold at *some* price. But the buyer of dry goods can never be sure that what he buys (unless it be simple staples) can ever be sold at all. The buyer then will naturally be one who has had experience as a salesman or traveler, and has learned by experience what the taste and fancy of customers are likely to be when new goods are offered them. There is a difference in this respect, between the customers of one house and another, between the people of one city and another, and between one period and another. A class of goods can be safely imported by a merchant in New York that it would be unwise to bring into a smaller city. As to the difference between one time and another it is a fact that in the inflation that prevailed in the early days of Manitoba, there were goods to be found in the Hudson Bay Company's store at Winnipeg of so costly a character that no merchant in Montreal and scarcely even in New York, would have dared to import them. Such goods could be sold in Winnipeg at that time. Two years afterwards a heavy reaction set in, and no such articles have been seen there since.²⁰

The buyer then will consider the customers of the house, as to their taste and capacity, as well as the time. An intelligent buyer after some experience develops a sort of intuitive apprehension of goods. He could

²⁰ During this inflation a rough looking fellow entered a crockery store in Winnipeg and asked to be shown a dinner set. The proprietor, wondering somewhat what such a man wanted with a dinner set, reached down one of a common character. The man, however, said at once, "That won't do." Other sets were then shown him of a better kind, but none of them suited him. They were not good enough. The man then said, "I've had a big stroke of luck; made \$50,000 out of a piece of property, and I want to give my wife something really tip-top; something extra, you know." The store-keeper then brought out a set he had specially imported for customers of the *nouveau riche* order; a set of such rarity and beauty that it would have graced the table of an English nobleman. The man said, "That will do;" and it was bought and paid for on the spot. The merchant showed his knowledge of the time by ordering a single set like this. But a year or two afterwards, no such goods, or goods of a quality even many grades lower, were ever seen on his shelves.

not explain it if he tried, but it exists, and it will lead him to say of some new patterns, "Our house could never sell them," and of others, "These will suit us exactly." Judging thus intuitively he judges promptly; and in a majority of cases he will be right.

A buyer's judgment, however, is not only exercised as to what goods to buy, but how much. This, sometimes, is a more difficult matter to determine than the other, for if he buys too much, even of an article that takes the fancy of customers, the extra quantity will be carried past the time when the fancy of customers favors it. On the other hand, if he buys too little, a feeling of vexation is generated in the warehouse at opportunities of profit being missed. The latter error, however, is the safer of the two. If the goods are evidently going off well a repeat order can be cabled.

Buying too much is a feible of some otherwise capable men, and sometimes a cause even of financial embarrassment. The amount to be bought is a matter for the principal to judge of. He will look over his stock, consider his average sales, and give his buyer instructions accordingly. But cases may arise in which an experienced buyer may take the risk of varying from instructions. He may learn things about the market when abroad that make it desirable rather to hold off than to buy. Or, what he learns may lead him to buy more heavily than was arranged. This, however, he will do at his own peril. A young buyer entering this difficult field will do well to err on the side of caution rather than otherwise. Better for him to cable for instructions and pay the cost himself, than to make such large purchases as, to the writer's knowledge, have not only caused loss to his principals, but deranged the whole market.

There are fields of mercantile enterprise in which the functions both of buyer and seller would appear to be far more easy than the foregoing, seeing that prices are quoted day by day, and that all a man has to do, apparently, is to follow the market. A plausible theory, but utterly fallacious. For in all staple articles, such as grain, cheese, wool or timber, there is a remarkable range of *quality*. The grades, certainly, are indicated by market quotations. But even in such apparently simple matters as grain and flour, there are shades of difference that none but experts can appreciate.

Yet it is often in a correct appreciation of these that the profit or loss of a given line of operations consists. The same remark applies to imported articles in other trades, such as groceries, fruit, wines, raw sugar; not to speak of hardware, iron and steel, in all of which there is room for the finest exercise of judgment on the part of the buyer as to the quality of goods. It may indeed be laid down as an absolute rule with regard to every variety of staple goods, that none but a man of experience can safely venture on the operation of buying. If he does, he will infallibly "burn his fingers," and if he continues, he will ruin himself.

THE OFFICE.

Passing now from the warehouse to the office, let us consider what is done therein as bearing on the conduct of a successful business. Here are kept the records which show whether the business is or is not on a proper foundation, and whether it is being conducted profitably from time to time. It is in the office that the merchant ascertains whether credit is being given judiciously, who and what the customers of the firm are; whether prompt in payment or otherwise; whether profits are being made, and what are the drawbacks in the shape of losses.

The important matter of *Insurance* will here come before him, also the financial management of the house. Above all, it is here he will ascertain whether he is keeping on a right footing with his banker. That all these are vital elements in the success of a business, every merchant knows; indeed, the trend of experience shows that business failures are more frequently traceable to defective management in the office than in the warehouse. For one merchant who fails by reason of not understanding his goods, ten fail because of injudicious crediting, too easy collecting, neglect of insurance, an incorrect style of stock taking, too small capital, too heavy drawings of partners, too heavy borrowing, and general lack of economy. All these are matters for the office. It is not so essential for the principal to have passed through the grades of *office* work, as that he should have had a thorough training in handling goods. But every principal should have had so much experience as to understand office records, and to see whether office work is properly done, and if the statements rendered to him from time to time can be depended upon.

In large mercantile firms a judicious combination of talent is desirable, so that while one partner shall be particularly conversant with goods, another shall be familiar with finance and office work; each giving, as a rule, undivided attention to his own department, yet being able at times to take an oversight of the other in case of need. But where there is only one partner, and one who has a thorough familiarity with goods, it is desirable that he should have at the head of his office, not a mere bookkeeper, however efficient, but a reliable man to whom he can entrust the *management* of the finances and accounts of the house. To a man of this sort he will pay such a liberal salary as will make him as much attached to the business as if he were a partner. Such a person will save his salary many times over by attention to credits, prompt collecting, sufficient insurance, attention to economic details, keeping stock within due bounds; and last, but not least, keeping the borrowings and discounts of the house within such limits that their cost will not be a drain on the business.

The foregoing may be called the elementary foundations of success in business as now carried on. They may not all have been necessary in the earlier days of the country. Many a man then succeeded who conducted his business by rule of thumb. But competition is now too keen and its methods too developed to permit any man to succeed who is not equipped at all points.

But this is not all that is necessary to success.

There have been men who could sell and buy goods, and know how to keep accounts, too, who have entirely failed in the attempt to carry on business for themselves.

It was said that at one time a considerable number of the salesmen in the employ of Mr. A. T. Stewart, of New York (who has been already referred to) were men who had failed in business. They were expert salesmen; and perhaps some of them expert buyers, but were deficient in other qualities essential to success. They could serve an employer and be depended upon to follow instructions. But experience had proved that they could not succeed when they had no guidance but their own judgment.

What, then, are the other and final conditions of business success, permanent success, let us say, in addition to the technical knowledge and skill before referred to? The consideration of these is of sufficient importance to form the subject of further treatment.

CHAPTER IX.

THE SUCCESSFUL MERCHANT—Continued.

CREDIT AND CAPITAL—BUSINESS LOCATION—EXTENDING CREDIT—ECONOMY IN BUSINESS EXPENDITURES—INSURANCE—INTEREST AND DISCOUNT—ADVERTISING—PERSONAL DRAWINGS—PROGRESSIVENESS AND COURTESY—CAREFUL ACCOUNTING.

PERSONS of little experience in the world may think it strange that a man whose character and capacity have been such as were sketched in the preceding paper should not succeed in business. Experience, however, shows that they do so fail. But that we may understand what is meant by success or failure let us remember that commercial business in this treatise is considered in relation to banking. Following this clue, it must be answered that the successful merchant is simply and essentially one who is able, from the beginning to the end, to meet his engagements; to perform every obligation he has entered upon, and to close his business career without being in debt to any man. He may and ought to aim at more, but considering the number of persons who fail in this primary condition, this must be looked on with no little satisfaction. But if the idea of success is to be carried no further than this, the mercantile world will generally pronounce it to be inadequate. Every man on entering business aspires after something beyond this, otherwise he might as well have remained an employee. What he generally aspires after is, at least, a competency—a sufficiency over and above his liabilities to support him when old age has deprived him of his powers.

CREDIT AND CAPITAL.

No man could conduct his business with comfort if he were always on what may be called "the ragged edge" of this world's affairs, being barely able to pay his debts and nothing more. A captain may at times have to sail close to the wind, but if he made a practice of so doing he would undoubtedly lose his ship. There must be a *margin* if there is to be any satisfaction in business; and this margin in the case of a merchant is his Capital. Of this a few words require to be said. And the first thing is that the capital, so called, must be a man's own. There is hardly a more dangerous delusion than for a merchant to talk of "borrowed capital," and no more dangerous practice than to enter in his balance sheet as "capital" money that does not belong to him. Borrowed money is not "capital," it is a liability. No matter though the loan has been arranged for a long term, though there may be an apparent certainty of the loan being renewed when due, or what is more dangerous, that

no period of payment has been fixed at all—money borrowed, no matter from whom or under what circumstances, is not “capital.”

Traders sometimes think it does no harm to reckon as capital an amount of money which is certain to remain in the business for a considerable period. But it does this harm, that a merchant, if he so considers it, will incur risks, buy goods, and give credit to a larger amount than he would do, if he rigidly thought of this supposed capital as a debt of which payment would some day be demanded.²¹

Capital, then, is *what a merchant owns himself*, on which no other person has a claim, the surplus over *all liabilities*, no matter to whom.

To ensure success in business, capital must be sufficient; an elementary truth, indeed, but capable of a great variety of applications. For example, it may be taken as a well established truth, that other things being equal, the larger the business the larger the capital needed. But the proviso, other things being equal, must be carefully noted. The slower the course of the business, the more the capital required to conduct it. The country store doing business where payments are only made once a year, requires more capital than a town store that sells a good deal for cash, and gives no credit for longer than a month. And the cash store, that gives no credit to anybody, requires *pari passu* least of all. The business of a saw miller or the maker of timber is one that calls for an unusually large capital in proportion to the annual production; for expenditures go on continuously for a whole year before the article is ready for market. At the other end of the scale, we find a grain merchant where the article is bought and sold on the spot for cash. This consideration, of course, determines the percentage of profit called for.

It is argued by some theorists that credit answers every purpose of capital. It answers some purposes of capital, for a time, beyond doubt. But such theorists are apt to forget that *credit must always be paid for*, no matter in what shape it is taken, whether in goods or in money. And experience shows that what is paid for credit in the shape of interest sometimes absorbs all that remains of profit, after expenses and losses have been provided for. Young men, for example, who buy out the assets of an established firm, paying a small amount down and giving notes for the balance, may find that interest absorbs their profit year by year, and renders progress impossible. The same thing is likely to happen when a young man is set up in business by a wholesale house, he having nothing worth the name in the shape of capital. The house sells him a stock of goods, and keeps him supplied with what he needs. He is compelled to buy from them, for if he buys elsewhere, they can bring his business to a stand. Under these circumstances, he invariably pays a high price for everything he orders, which high price really rep-

²¹ A very common form of the delusion spoken of is apt to arise when a partnership is dissolved, and the retiring partner leaves his money to those who remain. The remaining partners are then under constant temptation to consider the capital of the house to be as much as before, and to carry on business accordingly. From this delusion they sometimes receive a rude awakening.

resents the interest on his indebtedness, together with compensation for the risk run by the supplying house. If a man determines to break the chain and get free, bending his energies to effect it by a steady course of economy and industry, he may possibly make progress, and in time acquire a competency. But if not, he will almost certainly toil on through life, and be as poor at the end as he was at the beginning. But in a majority of cases he will fail during the process, and if the supporting house fails, he will fail, too.

As to the approximate amount of capital required for safety, it may be roughly estimated as follows: For a storekeeper, or a merchant whose business is moderately brisk, about one-fifth or sixth of his annual sales; in a slower style of business, about one-third or fourth. A manufacturer of any kind should have at least as much capital as his factory or mill with its plant, water power or machinery have cost together with the price of the land. In the case of a saw miller, the value of his limits or timbered lands must be added. A merchant in agricultural products, during the season of navigation, may do a large business on a smaller capital than a merchant in any other line of business; for the movement is so quick that he may be able repeatedly to turn over his whole capital in a week. To do this, however, he must act on the principle of steadily selling as fast as he buys.

But, when navigation is closed in river and canal, a produce merchant may find at times that he cannot profitably move his product at all. He should therefore have as much capital, at least, as will enable him to meet not only the fluctuations of the market, but unfavorable conditions of trade.

Paradoxical as it may sound, it is undoubtedly true that, on entering upon business it is not desirable for a firm to have too much capital. If they have, they will be apt to indulge in an easy-going style of conducting business, crediting too much, not collecting sharply, carrying too much stock, all of which are bad habits and may lay the foundation of future embarrassment.

If a father is setting up his son in business, the wisest course to pursue is to give him such an amount of capital only as will necessitate his being both industrious and careful. Better he should learn the value of money by being occasionally short of it. Better he should learn to be economical in personal and business expenses by its being rendered impossible for him to be otherwise. The law of necessity is a wholesome one, though many a man has fretted by reason of its pressure. Experience, in the majority of cases and in due time, will convince him that it is salutary.

VALUE OF A GOOD BUSINESS LOCATION.

An important element of success in mercantile business is a *good stand* in a *proper locality*; and, in the case of such a business as dry-goods, a well arranged, well lighted, and convenient warehouse or store.

But, even in the same locality and in the same street there are differences in the eligibility of a stand. The chance of obtaining a choice corner has not seldom been the making of a business. On the other hand, the energy and skill of an able man may be neutralized by a badly lighted store, or one placed on the wrong side of the street.

With regard to the building in which he is to carry on business, a young merchant will beware of entering upon a warehouse too large for his means. If he makes this mistake, he is in danger of either attempting too large a style of business for his capital, and being continually hampered for money, or of paying out too much of his profits for rent and taxes.

THE EXTENSION OF CREDIT.

But now, on the supposition that a merchant who knows his business, has secured a warehouse in a good position, that he has a proper amount of capital, that with the judgment of a good buyer he has laid in a seasonable stock of goods, he will immediately be confronted with the difficult question of *giving credit*. In all lines of wholesale business, this may be said to be the question of questions. It is even so to some extent with a retailer, especially in a country store.

The giving of credit in a country where the average of failures is so high at times as it is in Canada is so difficult a function to exercise, that, in a large establishment, it is well for one partner to devote his whole attention to it.

In this matter, a few general rules and principles may be indicated as the result of experience, some of which are applicable to the wholesale merchant and some to the retail storekeeper. It may be said, also, by the way, that most of them apply to a Banker also.

With regard to the former, the importance of correct information cannot be too much emphasized. *Get information, and be always on the lookout for more*; that should be the rule. Day by day, it should be the merchant's business to keep his information up to date. The things he knew about his customer a year ago may utterly mislead him now. Solvent a year ago and doing well, a man may now be losing ground and even unable to pay his debts. But while the present condition is important, the past has also to be considered. A man's antecedents are an important element in considering whether he is deserving of continued credit or not. Information requires sifting, for there are false reports as well as true. The working of a customer's account will tell him much. Conversation with the customer himself will elicit what could not otherwise be learned. The traveler who waits upon him will bring information also.²²

It is always desirable for a mercantile house to have a *maximum sum* beyond which they will trust nobody. This maximum will be carefully considered in relation to the capital of the house itself, and so

²² All this will be more fully considered further on.

regulated that the failure of no five or six persons could bring the firm into embarrassment. But the bulk of the accounts carried by a firm will be far smaller than this. That good old trade maxim, "Divide your risks," can never safely be forgotten. A tendency to be watched is for the large customers of a firm to drift into a habit of leaning upon the house. Such accounts have a general tendency to go on increasing, and their very size makes it difficult to throw them off. It is always known in the trade that such and such customers are "supply houses" of this firm or that, and the fact of the parties desiring to open an account elsewhere raises a suspicion that the supporting firm desires to get rid of them. Hence they cannot be got rid of at all; the only alternative being, either to bring them to a stop and face a loss, or carry them on with a constant endeavor at reduction, which is generally futile.

In the ordinary run of accounts the amount of credit will vary with the means and standing of the customer, a theory which is unquestionably true, but which requires a firm hand and watchful oversight to carry out. For some customers, when kept strictly within bounds by one house, will endeavor to run up an account with another. A dangerous amount of credit may arise when dealings are with a number of houses; each one imagining its own line to be judicious, while the whole, collectively, are unreasonable in a high degree. The remedy is to keep well informed, and to require periodical statements from customers, in addition to which the partner at the head of the credit department will find it useful to have statements rendered him by his clerks *in comparative form*, showing the progress of accounts from month to month, or year to year, indicating the amount of a customer's purchases during these comparative periods. From this it could readily be seen whether the account was sufficiently active for the indebtedness.

The head of the credit department of a house will also do well to note any hints he may receive from his banker. The banker often knows what the merchant does not. He deals with other houses in the same trade, and has branches in other cities. He may therefore be able to say to a wholesale merchant: "You are aware, I suppose, that such a customer of yours is running an account with a house in another city?" The banker need not violate confidence by going into details. "A word to the wise is sufficient." But if a hint is not sufficient, a banker may sometimes render an essential service by throwing out the paper of that customer.

The real test as to whether a merchant is crediting judiciously is the average *percentage of his losses to his sales*. Some percentage every merchant may expect. But in ordinary times this percentage should be so moderate as to make no serious impairment of profits. Even in times of depression, when insolvencies are double or treble the average, the losses ought never to be so much as to impair the stability of the house, though they make serious inroads into its profits.

The foregoing observations have reference wholly to dealers in

imported or manufactured goods. The dealing in exports, however, is governed by other considerations. It may be laid down as a general rule that the exporter of Canadian products, partly from the nature of the products themselves, and partly from other circumstances, should usually give no credit at all. For how can he keep himself informed of the changing position of merchants in a foreign country? A partner may die or retire, yet the conservative habits of English houses will lead to the *name* being retained, while the capital may have been withdrawn. Even the ratings of firms in reference books may be kept as before, although a vital change has taken place in their composition and capital.

The true position for the Canadian exporter to take is, that if the buyer abroad wants credit, he should get it in his own country; an idea which is undoubtedly reasonable, and has led to the habit, now general in many lines of export trade, of attaching bills of lading to bills of exchange, and requiring the bill to be paid before the security is given up. All this will be fully considered later.²³

With regard to the credit given by retailers, a distinction must be made between those in the city and the country.

The accounts of respectable families in cities are seldom a source of loss, though some householders do occasionally run up tradesmen's accounts to an unreasonable extent. Such accounts, however, seldom give rise to discountable bills; and if such are presented to a banker he will generally do well to decline them.

But the credit given by country storekeepers to farmers rests on different grounds. The farmer has property which can be seen, both real and personal, and though often slow, is generally sure. The danger with farmers' accounts is not so much of ultimate loss, as of their degenerating into what bankers call "lockups." A storekeeper with his books full of such accounts is apt to become as slow as the farmer himself. His interest account therefore becomes heavy and tends to eat up his profits. He is made also to feel in times of pressure that his account is undesirable. In dealing with farmers, storekeepers need to be careful to consider whether their customer is owner or tenant; and if owner, whether his land is free of encumbrance or not. The utmost limit of credit to a farmer should be the amount of one season's supplies. When an account gets beyond this, it should be stopped. No consideration of ease in getting bank discount should prevail to alter this rule.

²³It is to be said, however, that the houses in Great Britain with whom our timber exporters deal are almost invariably of a high class, both in wealth and credit, merchants of long standing and unblemished antecedents, who have never failed to meet obligations in the worst of times. Yet it is singular how cautiously English bankers speak when asked an opinion of even these circumstances prove that there is a good reason. A timber merchant in England who had maintained a high position through a long course of years became embarrassed and stopped payment, with heavy loss to his creditors. To the astonishment of them all, his bankers included, it was found that he had engaged in reckless speculation in an article that had nothing to do with his trade, which speculation going wrong, had resulted in such heavy loss as to ruin him. This affair was the occasion of considerable loss to Canadian firms who had dealt with him continuously for years.

ECONOMY IN BUSINESS EXPENDITURES.

This is another condition of success. By this is not meant mere saving and cheese-paring. Economy primarily means *management*, as the derivation of the word implies to begin with; careful calculation of what charges can be afforded according to the size of the business. The primary charge in a mercantile business is the rent of the warehouse. To rent too large a store is a serious mistake. But it is poor economy to rent one too small; or that is situated on a back street, or is badly lighted, or badly laid out for business. Saving of this kind will be far more than offset by loss of customers.²⁴

The salaries of clerks, salesmen and travelers is another item of even more importance than the other. Here again it is poor economy to employ an inferior class of men. Such are apt to injure the business by inefficiency. More men, too, are required to do a certain amount of business when they are below a proper standard. Three competent men will do as much work as four of an inferior class, and while they cost no more in the aggregate, they help to build up the business by wise attention to the wants of customers. A merchant will do well to have young men about him who are undergoing training in the methods of the business. This tends to economy, but must not be carried too far, as no warehouse or office can be carried on well when there are too many juniors in it.

Closely connected with this matter of employees and making the most of their capacity, is that of the treatment of the *seniors*. Some of these, although they grow in years, and can be more and more trusted, do not develop business capacity. Men of this kind have their value; as they save the principal much anxiety, and need no supervision. They can also be useful in the training of juniors. They gradually therefore grow up to the position of old servants of the house, who have a comfortable salary and are contented with it, on whom reliance can be placed and who never aspire to anything beyond. It is always good economy to treat such servants well.

But there are others who develop a capacity for business. Such as these not only work, but think. They suggest improvements and economies. They calculate how much things cost, and sometimes find out where they can be bought cheaper. Such employees as these should be noted and encouraged, and sometimes taken in as partners.

It is thus that the traditions of a house are preserved from generation to generation, the firm going on doing service to the community and

²⁴ It need scarcely be pointed out that the rent of a store is a charge upon the business, even when the premises are owned by the firm. And in an adjustment of accounts, or stock-taking, rent should be charged as part of the annual expense of business exactly as if it were paid to an outside person. Where the business belongs to one person, and he owns the warehouse or store, he is deluding himself as to the expense of the business if he omits to charge it with rent, and he is of course deceived as to the percentage of increase to charge on his goods.

securing wealth for its members, many examples of which may be seen on both sides the Atlantic, but especially in Great Britain.²⁵

INSURANCE.

Another item of expenditure, and one in which serious mistakes are made, is that of *insurance*. This will be fully treated of hereafter. It may, however, be noted in this connection that insurance is as reasonable a charge as rent and taxes, and if business, as carried on, will not bear the expense of insurance, there is something wrong with the business.

INTEREST AND DISCOUNT.

Another item of expense which, in some cases, is the most serious of all, is *interest and discount*. Few firms are in condition to conduct their business without bank loans or discounts at all. But there is a reasonable use of bank credit, and an imprudent use. When a wholesale merchant's line of discounted paper averages more than one-fourth of his annual sales, it is generally a sign that his credit to customers is too long, or that he does not collect sharply, or that he is too easy in renewing. But when, in addition to discounted paper, he borrows directly and regularly from his banker, he has reason to revise the whole methods of his business. Bank credit to some men is a dangerous luxury. Such loans may serve a useful purpose, provided they never amount to more than one-fifth of the average line of discounted paper and that they never extend beyond one or two months. But when such loans are required constantly, and exceed the amount above named, it is, as a rule, a sure sign that the credit department of the house is loosely managed, or that it is carrying too much stock.

When times of difficulty set in, and the general average of failures rises, the pressure will show itself in a tendency to require more of this kind of bank credit. But this state of things is best met, not by taking more credit, but by curtailing the business. As to the interest account of a merchant in agricultural products, it will not amount to more than one-third or one-half of one per cent. on the total sales, if the business is as active as an exporter's should be. But should such products be held month after month, in our long winters, interest and charges will almost certainly swallow up the profit, even of an ordinary rising market.

²⁵ A mistake has sometimes been made by the head of a commercial house who has one or more sons growing up, whom he naturally desires to succeed him in business. While they are growing up one or more of his employees are developing a capacity for management; yet he hesitates to take them into partnership, fearing they may displace members of his own family. The result often is, that these employees leave the house, enter into business for themselves, and become serious rivals. If the sons prove to have managing capacity, the firm may not ultimately be damaged. But if not, the chances are that a business founded and maintained by the father may disappear under the incapacity of the sons. It is, therefore, wise to keep managing capacity in the firm, even if, under such a regime, sons have to become little more than sleeping partners. The prevailing tendency to convert firms into joint-stock companies affords, however, an easy method of dealing with this state of things.

ADVERTISING.

There are other items of expense, such as *advertising*, which every merchant must think out for himself, for no general rules can be laid down, except this, that advertising should be in a proper medium, that it should be arranged so as to attract attention, and that it should be changed from time to time so as not to become monotonous. In the nature of things some kinds of business depend more on advertising than others. Those who deal in articles that are constantly changing must bring their novelties before the public; on the other hand, those who deal in staple goods with a limited range of customers, and where the price is a matter of market quotations, such as grain, etc., never need to advertise at all.

But in the general matter of charges and expenses, when they have been arranged so as to comport with the size of the business, the thing to be kept constantly in view is to get good value for the expenditure, whether of rent, salaries, insurance, advertising, or what not.

PERSONAL DRAWINGS.

It goes without saying that personal drawings from the firm and personal expenditures should be on an economical scale also. This is a matter requiring careful adjustment where there are two or more partners, and careful consideration where there is only one proprietor. The amount to be drawn is usually set forth in the deed of partnership and should obviously be on a scale that will allow a considerable margin between drawings and profits. But in case the amount is for any reason exceeded by one or more partners, the amount of the excess should be by no means entered as among the open accounts due to the firm. This is a most delusive practice and has not seldom been the means of deceiving a firm's bankers. Right and proper it is between partners to keep accounts to show how the members of the firm stand to each other; but for a firm to enter amongst its available assets sums that are due by one member to the rest, and to render an account to a creditor in that shape, is a proceeding that borders upon fraud. This practice is particularly dangerous when a partner, by arrangement with the other member of the firm, is allowed to draw out a considerable sum, possibly to build himself a house, or enter on a speculation. The real capital of the firm may be largely depleted in this way without its being apparent in their statements.

PROGRESSIVENESS AND COURTESY.

In these days of increasing competition where business is apt to assume the form of a contest and only the fittest survive, it is essential that the principals of a firm shall be constantly on the watch to note new developments, new markets, new methods, new economies, new styles of goods, new methods of transportation. All the world is rapidly becoming one country, and the successful merchant will keep an eye upon whatever is going on that bears upon his business.

In dealing with his customers a merchant will observe the maxim, "Civility costs nothing, but is worth a good deal." Many a merchant spoils his trade by a deficiency in this respect. He is impatient, and if his customers don't like the goods he is showing them, he will not take the trouble to show them something else. True, a merchant sometimes knows what will suit a customer better than does the customer himself. But it is bad policy to say so, or to show that he thinks so. A dry goods merchant should make a practice of systematically clearing out all goods that are *passee*, or becoming so. That was another of Mr. Stewart's cardinal rules. He made a point of having nothing but salable goods on his shelves. But there is a great temptation to hang on to stock that has once been bought, and some men constantly do it, hoping against hope that it will be sold in ordinary course. It is an unpleasant thing to sell goods at a loss, but it is often true economy in the end. The process of weeding will, of course, be carried on by the principal, so as to ensure that good plants may not be pulled up with the weeds.

VALUE OF CAREFUL ACCOUNTING.

The final element of business success is the keeping of *accurate accounts*, and the systematic balancing of them once a year at least. It has been said of many a merchant, but perhaps more frequently of a manufacturer, that he does not know what his goods cost, and therefore he is deluding himself during the whole time that he is selling them. The only efficient check upon this is the careful taking of stock, and periodically balancing of books. In stock taking, when goods on hand are written down to what the merchant could buy them at for cash, or what he would be willing to give for them; when all accounts are put at their collectible value, and written off if they have none; and when due allowance has been made for depreciation in fixed property, a merchant will sometimes be astonished to find that he has not made half the profit he had anticipated, or perhaps none at all. This being so, he will naturally endeavor to ascertain where the leak is, overhauling every department of his business for the purpose. He will, after this, buy more carefully, sell more closely, economize expenditures, collect more sharply, and borrow less money—thus laying a foundation for a satisfactory result in future.

It may be objected to this that many a man has prospered and made a competency in Canada who conducted his business by "rule of thumb" and never made out a balance-sheet in his life. There have been cases, no doubt, where great natural shrewdness and ability in buying and selling have brought out such results. But these were exceptions, even in the early days of the country. But now that population has increased and competition increased with it, the "rule of thumb" must perforce give way to the keeping of accurate accounts.

CHAPTER X.

MANUFACTURING.

EARLY DEVELOPMENTS OF MANUFACTURING—SUITABLE LOCATIONS—
BONUSES—THE SUCCESSFUL MANUFACTURER—CAPITAL REQUIRED—
PROPER MACHINERY—WHAT GOODS TO MAKE AND TO WHOM THEY
ARE TO BE SOLD—CONSIGNMENTS—SELLING AGENTS—SALES TO
WHOLESALE MERCHANTS—INSURANCE.

THE subject of Manufacturing, apart from the petty developments of a primitive condition, at once opens up this fundamental question, what natural capacity or suitableness exists in any given country, or given tract of country, for the production of goods by manufacturing processes? The answer to this question verges upon the problems that gather round the controversy between free trade and protection. These problems it is not within the scope of this work to consider; suffice it to state, what is universally acknowledged, that the primary conditions of the suitability of any country for manufacturing are two, the possession of *power*, and the possession (or possibility of acquiring at a competitive price) of *raw material*. There are secondary considerations, such as a supply of suitable labor, and the proximity of markets, but the foregoing are fundamental.

Where these two are found together, manufacturing is most natural, and if efficiently carried on, most profitable. Where only one of them is found, the possibility of profitable manufacturing depends on the cost of bringing the two into conjunction. Where neither of them is found, profitable manufacturing is, generally speaking, hopeless.

EARLY DEVELOPMENTS OF MANUFACTURING.

The early developments of manufacturing almost invariably arose around *water powers*. Thus it was with nearly all the manufacturing towns of England. The streams that flowed down from the central moorlands of the North gave rise to the falls and powers that were the origin of the manufactures of Lancashire and Yorkshire. Thus it was also in Scotland, in central England, in New England, and notably with the powers arising from the great rivers of Canada, and of the United States.

The development of coal mining introduced a new element into the question, which element, in most cases, has become the dominant one. Except in a few centres where water powers are found of prodigious magnitude and continuity—such as Ottawa, Minneapolis, and Kewatin, the power of coal has not only become supplementary to the power of

water, but has almost supplanted it. But even in localities where water power has fallen almost into disuse, and great manufacturing cities are found at the present day, whose engines are almost wholly run by the power of coal, it will generally be found that some water power was the beginning of its development. Thus it was that several little converging moorland streams in Yorkshire were the origin of the town of Sheffield, though the power derived from them is now infinitesimally small. The little river Idle, which is humorously said to be the hardest working stream in the world, flows down the western sides of these same moorlands, and was the origin of many of the thriving communities of Lancashire, Manchester included. Yet hard as the little stream works, its total power and that of other streams like it is a very small factor in the total production of the district.

Nature itself, that infallible mother of all forces, has indicated with certainty where manufactures may profitably flourish. And it is one of the most striking developments of these days that water power is asserting itself again as a generator of Electricity.

SUITABLE LOCATIONS.

But though a given country, as a whole, may have the natural elements of manufacturing success, it is not every locality that is suitable for every kind of manufacture. Other elements have to be considered, and particularly the important factors of labor, economical supply of raw material, and the ease of reaching a consuming market. What particular manufacture will suit a certain locality has finally to be determined by these. It has become plain that flour milling suits Minneapolis, saw milling the Ottawa Valley, cotton manufactures New England, iron and steel Pennsylvania. Cotton spinning flourishes in Lancashire, but an attempt to introduce it into Yorkshire was a signal failure. Montreal has remarkable facilities for a variety of manufactures, and a variety of them are therefore found in that city and neighborhood. So, by a natural process of development, each of the manufacturing towns of Canada has come to be what it is; and the best has come to be made both of our coal mines and the water powers of our smaller rivers, such as the Trent, Otonabee, and Grand in Ontario, and the St. Francis and the Chaudiere in Quebec. And what is true of Canada is true of the United States on a much larger scale. In a forest covered country, as most of Canada was originally, the most natural form of manufacturing was sawing up the wood of the forest into lumber, or hewing it into square timber. Both have been the source of great profit at one time, both have caused great losses at another; the profit and loss having been generally traceable to knowledge of the business or lack of it; but sometimes to the chances and changes of winter and spring. But too much or too little snow in the woods, or too much or too little water in the river, may spoil the labor of a whole season.

But a person who has been successful as a maker of timber sometimes

turns his attention to saw milling. He is then confronted with new conditions of which he has had no experience, and ruinous losses have followed the experiment. Mills were built where the best conditions did not exist, and profit frittered away in cost of hauling.

The difference between a mill which can be worked properly and one that will entail constant loss may be only a difference in locality of half a dozen miles. To locate a mill on one side of a stream or the other, or on the eastern side of a hill instead of the west, may make the difference to the owner of a fortune or ruin.

The same principle applies to another natural industry of Canada, the flour mill; a business that has undergone a striking development corresponding to the development of the country. The gristing mill of former days, often buried in the woods, picturesque in appearance, with the rudest description of equipment, has been necessarily replaced by the substantial mill of these times, contiguous to a railway or navigation, equipped with modern machinery and perfect appliances for power and transport.

At quite an early period there followed woolen mills, tanneries, and pork factories; and, somewhat later on, breweries, distilleries, coal mines, iron works, fish-curing establishments and implement manufacturing, paper mills, etc., all of which are indigenous to the soil, and work up the natural products of the country or its contiguous waters. In all these, as in flour milling, there have been enormous developments from the past to the present; and in all of them much money has been both made and lost.

But there are now in the country manufactures of a different description, which have yet attained a high degree of development and give employment to a large number of artisans. These differ from the foregoing, inasmuch as the raw material they work up is not a product of the country. They owe their inception and, in part, their continuance, to legislative conditions, for which reason it is considered by some that they should never have been set on foot, and have no right to be continued. (Many of them, however, have very fine water power.) These manufactures, however, exist, and their development illustrates the importance of locality as much as those before mentioned. Some mills have never been a success, and if they had been owned by private individuals the parties would long ago have gone into bankruptcy. In other cases, after the difficulties that attend all new enterprises had been overcome, success has been constant and remarkable. All of them demonstrate the points insisted upon, viz., that an ample supply of power, either of water or coal, an easily available supply of raw material, good communications both to and from the factory, and command of efficient labor, are the foundations of success, without which the largest expenditures, the most efficient machinery, and most economical management will be in vain.

There must, in the nature of things, at some time be a pioneer establishment in the case of every manufacture in every locality. It is not

seldom the case that a large amount of money is lost while the experiment is in progress, even if success be attained ultimately. Some of the well-established manufactures of Canada were commenced by men who were not discouraged by losses at the outset. They persevered, but not on the same lines. They tried experiments, found out defects, introduced new methods. Thus, sometimes very slowly at first, but surely, they discovered the art of not only making goods but making money.²⁶

BONUSES.

Closely connected with the matter of locality is the practice, once so common in Canada, of municipalities offering inducement to manufacturers to establish their business amongst them. This practice is unknown in Great Britain, and it has been of doubtful advantage to this country. For it is certain that unless a manufacturing business is established in a proper locality it cannot permanently succeed.

The great centres of manufacturing industry in Great Britain have not become so by chance, or by means of municipal bonuses, but because of their facilities. Why are they all found in the North, or in other localities contiguous to hills? It is because of the water power originally found there. In the early days of development, when a district is only imperfectly known except to the people therein, these, knowing the district to have advantages, may reasonably call attention to them, and offer inducements to a manufacturer to establish himself amongst them rather than elsewhere. These inducements will offset the risk of building and bringing capital to a place hitherto unknown. Its success as a seat of manufacture has to be proved, and it may take years to accomplish it. Remission or reduction of taxes, or an actual bonus in money, may therefore be offered without violating any economic principle. If the place proves to have the advantages claimed and the parties receiving the bonus have capital and capacity, the experiment will succeed, and other enterprises follow. Then bonuses should cease.

But when the people of a town, simply out of a spirit of ambition, or what is called enterprise, seek to draw manufactures to a place without natural advantages, the effort is feredoomed to failure. Any manufacturer, looking round for a spot in which to commence operations, will beware of being tempted by a bonus to an undesirable locality. Better borrow the money at ten per cent., supposing it necessary to borrow at all, and settle in a desirable locality, than get a supply of

²⁶ It is, as has been observed, foreign to the purpose of this treatise to discuss the economic questions connected with these latter lines of industry. But it may be observed, and it deserves to be noted, that even such industries may be considered indigenous, at any rate to this extent, that the raw materials of several of them are produced on this continent, if not in this country, and that we have the means of economical production in our water power, and access to coal mines; also in a supply of suitable labor and of economical distribution in our great lines of railway and river transportation. And it is an undoubted fact that much of the water power which nature has given us would be wasted if these enterprises ceased to exist.

money for nothing in an undesirable one. And the people of a municipality, under such circumstances, will learn by unpleasant experience that their money has been wasted by reason of the forced enterprise never taking root.²⁷

²⁷ The writer remembers well an instance illustrating the importance of locality that transpired in a certain town in England. The district is particularly well adapted for iron manufactures, and they have flourished there for generations. But many years ago some capitalist conceived the idea of developing the cotton industry there also. There were hundreds of cotton mills fifty miles off over a range of moorlands, why could not the industry be domiciled in his own town? The capitalist conceived there was no reason, and built and equipped a mill. But it was found impossible, year after year, to make cotton goods at a profit; although, not a hundred yards away, a great iron foundry and rolling mill, fed by the same water power, were making large amounts of money for their proprietors. The reason was that in the era before railways the range of hills aforesaid presented an insurmountable barrier. The cost of bringing raw material to the town by carting it over the moorlands and carrying back many of the finished goods over the same hills, swallowed up all the profits of the mill. After years of hopeless struggle and heavy loss of capital, the factory was closed and dismantled. I well remember its broken windows, dilapidated flumes, and ruined dam, standing out as an object lesson of misplaced enterprise. Canada, too, has some object lessons of the same kind. But she has seen magnificent examples of success when natural conditions have been duly observed, and business principles brought to bear.

CHAPTER XI.

THE SUCCESSFUL MANUFACTURER.

CAPITAL REQUIRED—PROPER MACHINERY—CONSIGNMENTS—SELLING AGENTS—SALES TO WHOLESALE MERCHANTS—INSURANCE.

IT may at first sight seem unnecessary to make a distinction between the successful merchant and the successful manufacturer. But the points of difference are important enough to make it desirable.

Almost all that has been said respecting a successful merchant applies also to a manufacturer; but all that applies to a manufacturer does not apply to a merchant. In using the word "manufacturer," it should be understood that, in this chapter, a flour miller, a tanner, sugar refiner, saw miller, pork packer, and hewers of squared timber are included. They all produce goods by a manufacturing process, though they are not generally called "manufacturers."

To be a successful manufacturer implies at the outset that the goods produced are such that, speaking generally, there will be some certain *demand* for them. There are goods which are subject to the changes of fancy and fashion; it is then of primary importance for a manufacturer to watch these changes and regulate production accordingly. There are others for which the demand is certain.

But though a man may be sure of selling the goods he produces, it by no means follows that he can always sell them at a profit. A manufacturer may have an imperfect equipment, or insufficient knowledge, or inadequate capital, in which case, so strenuous is modern competition, that to make profit is out of the question.

CAPITAL REQUIRED.

With regard to capital, it is obvious that more is required for a manufacturer than for a merchant. A merchant buys the very goods he sells; and can generally buy them on credit; the only immediate cash outlay on them being for freight and duties. He can generally lease the warehouse in which he does business. But a manufacturer can rarely rent his mill or factory; in fact, it is almost a necessity for him to own it.

The minimum capital on which a manufacturer can carry on business with ease, is that expended on land, buildings, plant and machinery. But it is certainly desirable for a manufacturer to have some capital beyond this, otherwise he may find himself seriously embarrassed, in a time of monetary pressure. It is only prudent therefore for him to allow his profits to accumulate until he can look circumstances squarely in the face no matter what financial changes may transpire.

PROPER MACHINERY.

But, though being in possession of adequate capital, it may be safely said that a manufacturer cannot be successful unless he, or a manager under him, has a *faculty for machinery*, and can tell, as by instinct, whether any particular machinery is serviceable and workable. This faculty, if he has it, will enable him to make economical repairs and replacements, or introduce improvements, perhaps peculiar to himself. For it is a necessity for every factory to adopt current improvements when their merit has been demonstrated.²⁸

Here it is that the faculty for machinery will have its scope. It will enable a manufacturer to judge whether the new thing is a good thing, and whether improvements, so called, will really improve; or whether he cannot, by some alteration, make his own machinery answer the same purpose. The proprietor of a large flouring mill, not in Canada, once lost a large sum of money by hastily adopting a new method recently patented. The mill was at a standstill for some time while the alterations were being made, and its customers were obliged to trade elsewhere. But when the mill started again, although a great flourish of trumpets had been made about the new process, it was found to make no better flour than the old and no cheaper, and in the end it was abandoned altogether.

WHAT GOODS TO MAKE, AND TO WHOM THEY ARE TO BE SOLD.

The question, however, now arises to which all that has been referred to is preparatory, viz., *what* goods are to be manufactured, and to *whom* and *how* are they to be sold? It is not necessary in a treatise like this to enter upon the specialties of the many lines of manufacture established in the country. The greater part of them are of staple products. But there is this to be said, that it is highly conducive to success, even in the manufacture of staples, for the manufacturer to make a special article, and to brand it with his own name, so that it may have a name in the market, familiar to his customers and the public. Unless he can do this, he will rarely make profit. There is a general and noticeable movement towards specializing manufactured goods, and labeling them with a name which carries with it a guarantee of quality, even of such articles as flour, pork, whiskey, etc. The reputation once established, the demand is certain, and, in most cases, the profit is assured.

But in such lines of manufactures as cottons, woolens, boots and shoes, rubber goods, etc., etc., many varieties are to be found. Some of

²⁸ Not that every new idea in machinery is to be adopted as soon as it comes out. A thing is not necessarily good because it is new. The patent offices at Washington and Ottawa contain hundreds of models of inventions, and of supposed improvements, which turned out on trial to be unworkable. A manufacturer, therefore, while keeping his eyes open to what is transpiring in the way of improvements, will be careful not to spend money on what may turn out to be mere "fads," unless indeed he has capital enough to enable him to spend money in experimenting.

these, too, are staple, but others are of the kind where taste and fancy have sway; such as colored and fancy cottons, woollens and silks. In agricultural implements also a considerable element of taste and fancy has sway, and competition prevails as to the quality of various kinds of machines. For the wise production of these classes of goods, the same instinctive feeling of *what will suit the market* is required, that has been referred to in the case of a merchant.

CONSIGNMENTS.

Passing, however, from the consideration of what is to be manufactured, to that of *how* the productions of the factory are to be *sold*; a wide field is entered upon, which brings the manufacturer into close contact with the banker. At the outset, questions arise as to whether goods shall be sent *on consignment*, or whether they shall be made to reach the merchant direct; whether the services of a *selling agent* shall be secured, through whom the whole product shall be distributed to the dealer, or whether dealings shall be with customers direct.

With regard to consignments, it has long come to be regarded as an unprofitable method of doing business. Manufacturers of goods for export have long seen it necessary to establish such connection abroad that they can make *sales*, at definite prices and on definite terms of time and delivery; and will not trade except for what are called "*firm offers*."

SELLING AGENTS.

Manufacturers of cotton and woollens have, however, found the convenience of dealing through a selling agent who will guarantee sales; or will accept himself against the goods that pass through his hands. It saves a large amount of office work, and seems also to save a considerable amount of risk in giving credit to a large number of traders scattered over the country. But experience has proved that though trouble and office work are saved, *the risk* remains. The selling agent himself takes the risk of numerous accounts; and in difficult times he may himself succumb. Hence it has come about that while the services of a selling agent are retained, he is in some cases relieved from the responsibility of accepting against goods, or guaranteeing accounts, a difference in remuneration being made accordingly. The manufacturer then deals directly with the customer so far as collecting is concerned, and takes the risk of giving credit. This arrangement is looked upon with much more favor by the banker, for obvious reasons. The practice of selling goods through an agent is found convenient in the case of factories located in country districts. The selling agent in such cases performs the service of a well-informed partner. Being resident in a mercantile centre, he can give the manufacturer advice as to changes of fancy and taste; and prevent him running on undesirable goods.

SALES TO WHOLESALE MERCHANTS.

In most lines of manufacture, the natural course is to sell to the wholesale merchant. In this case the manufacturer will have large accounts in his books, especially in the timber trade, where it is a common practice to sell the whole product of the year to one mercantile house. This involves exceptional risk, and a prudent banker will be careful as to discounting bills of the magnitude called for unless a lien is preserved on the goods until payment. But throughout all these selling arrangements, where paper is required to be taken, a prudent manufacturer will always keep in touch with his banker, as to *whom* to credit, and to *what amount*.

The last course open to a manufacturer is to sell to the retailer. This is, or certainly was, a common practice in Great Britain, but it has not taken root here, except indeed in the case of the departmental city stores, whose purchases are on the same scale as those of a wholesale merchant, and are treated as such by a manufacturer. It is evidently not desirable for the manufacturer to sell to the ordinary retailer, for in that case he will endanger his trade with wholesale houses.²⁰

INSURANCE.

In the matter of insurance there is even a greater necessity for a careful outlook; for the damage to the business of a manufacturer by fire is usually far more serious than to a merchant. It is much more easy for a merchant to obtain new premises and a new stock of goods than for a manufacturer to replace his buildings and machinery. The fact that a

²⁰ The method of disposing of staple export goods by consignment was formerly almost universal, but it has led to so many losses as to have been largely abandoned. It was an easy way of doing business to forward goods to a consignee as fast as they were made, and draw a percentage against them, that percentage being supposed to leave a margin to be drawn for in future. The margin would, in truth, be realized if the goods struck a favorable market; and many an exporter has deceived himself by treating it as a tangible asset. But a sad undeceiving has often awaited him on the receipt of Account Sales. In many cases there was a balance against him instead of to his credit, which balance he was called upon to pay. The technical name for this is "reclamation," a word which has had an ominous sound for many a shipper, and proved the beginning of a downfall. A consignee when his own acceptances are coming due, and markets are adverse, will sometimes slaughter his correspondents' goods. An unscrupulous consignee, indeed, in an advancing market has been known to take goods to his own account, rendering a far less favorable return than he could afterwards have done, had the goods been actually sold. There are, in fact, disadvantages every way in consigning. The manufacturer has not the advantage of that direct contact with the buyer which is one of the most efficient checks upon his business. If he consigns he may not know for weeks that his goods are unsuitable or badly manufactured; whereas, if he sells, the buyer will tell him at once. In the one case he will go on making goods by which he ultimately loses money; whereas, in the other he will at once change his methods, overhaul his machinery, or buy more suitable raw material, and so work round to a profitable style of business.

It may be thought difficult to arrange sales with buyers across the sea, but it is undoubtedly for every exporter's interest to open communication with buyers, and to visit the centres of consumption abroad, and in these days of swift communication it is becoming easy to do it.

manufactory is usually well built, or that it has unusually good fire protection, should never induce a manufacturer to diminish insurance. He gets the benefit of his good appliances in a lower rate. But to diminish the *amount* is apt to prove a serious mistake.

Another factor in manufacturing success must finally be noticed. It is that a manufacturer should be about his works early in the morning. One of the most conspicuous instances of manufacturing success that Canada has known, in which, from small beginnings, an enormous and most profitable business had been built up, was characterized by this feature. One of the principals was always about the establishment as early as any of the workmen, going from floor to floor, from room to room, from department to department. Dusty and dirty he was as any workman in the building, before breakfast. But a few hours later the same man might be seen on 'Change, in the bank parlor, or in his own office, guiding the finances of his large business, or attending to operations involving the welfare of men in all parts of the country.³⁰

With regard to other elements of success, all that has been said of the merchant has an equal application to the manufacturer.

³⁰ It is amongst these large and diversified spheres of industry, some mercantile, some manufacturing, that banks find their principal field of operations: their mode of dealing with each will be fully opened up later on; meanwhile it may be observed that it would be of extreme interest, though it may not be possible, for a special Government return to be published, say once a year, showing how much assistance the banks were rendering to the various lines of industry in the country.

CHAPTER XII.

ELEMENTS OF SUCCESSFUL BANKING.

WHY A BANKER COMES AFTER A MERCHANT AND MANUFACTURER—PRIMARY ELEMENTS OF SUCCESS—CAPITAL—ITS MINIMUM—HOW DISPOSED OF—LOCATION AND STYLE OF OFFICE—OFFICERS AND CLERKS—THE MACHINERY OF THE OFFICE—ULTIMATE END AND SUMMING UP OF WHAT A BANKER SHOULD BE.

IN a treatise on banking and commerce it is perfectly in accordance with the reason of things that the successful merchant and successful manufacturer should be treated of before the successful banker. There must be merchants and manufacturers before there can be a remunerative business for the banker; and unless there are successful men in these callings, a banker, though he may take care of the surplus money of the community, will find it dangerous to lend money amongst them.

He will be pressed to do this beyond doubt, and every kind of influence will be brought to bear upon him to induce him to comply. He will, for example, be told that he must do his duty as a citizen. The town supports him, and he ought to support the town. It is a matter of plain obligation to help its industries along, for these, it will be said, are the very foundation of his own business. So the people will say, and what they say is sufficiently plausible to make a strong impression. But many a banker has had to suffer severely for listening to such representations. In such circumstances, that is, when there are few desirable customers in the locality, the banker will be offered high rates of discount. From some of the applicants he knows that he could take, practically, whatever he pleased; and from the best of them, or those who seem so, he will be offered rates such as he might think would enable him to provide a safety fund. But on the supposition that the business of the town is in such a state that there are as yet few or no successful men in it, high rates of interest will be no protection. No safety fund can be built up that is large enough to offset the losses which will inevitably ensue. The successful merchant and the successful manufacturer therefore must come in order of time before a banker can do a successful business.³¹

³¹ It may be said that such a state of things as has been imagined thus far is impossible. But experience refutes this opinion. A case is known to the writer in which in the collapse in a certain town of a remarkable "boom" every single storekeeper in it, except one, failed. The town itself became bankrupt and could neither pay interest nor principal on its indebtedness. Its population decreased from 3,500 to 700, its main streets became grass-grown, and handsome buildings became tenantless. Of the money lent by a branch bank in that town more than three-fourths was lost. If the banker had been a private individual, he would have gone down in the crash and been ruined beyond redemption.

This case was in Manitoba, but even in Ontario the writer can recall in-

But now on the supposition that in a certain locality sufficient savings have been accumulated to give business to a banker, and also that there are a number of prosperous men of business in the locality; what are the elements that make a banking enterprise successful?

(1) CAPITAL is certainly as much a necessity for a banker as for a merchant; for, speaking of him in this personal style, no man can expect a community to trust him with the care of their money unless he has shown ability to take care of his own.

(2) But how much capital ought a banker to have? What is reasonable in the case?

Putting aside for the present the private banker, it may be noticed that the legislatures both of Canada and the United States have dealt with this question in their banking laws.³²

In Canada, where the system of chartered banks *issuing circulation* is firmly established, the Bank Act provides that no bank shall possess a *smaller paid-up capital* than \$250,000. This sum is certainly small enough for a corporation which has the power to issue notes for circulation—which notes are, in effect, guaranteed by the whole body of the banks of the country.

In the United States, however, every banking office is owned by a separate corporation and some of them, owing to the absence of the branch system, are permitted to be organized on a capital of only \$25,000.

This must be conceded to be running near the danger point. It certainly imposes upon a bank of such small dimensions the duty of incurring only the most moderate risks, and confining the business within limits more like those of a storekeeper than a banker.

England has no legal requirement of minimum capital in banking; and the tendency from the beginning has been for banks in England (as distinguished from Scotland) to have a smaller capital in proportion to the business done than is common in Canada; the Bank of England alone excepted.

The reason for this is twofold: First, the branch system, until lately, has never been developed in England to the extent that it has in Scotland and in Canada. The banks of England, as a rule, do a much more localized business than those of Scotland and Canada. Secondly, but a more important and pertinent reason is, that business conditions in Great Britain are so much more settled that banks may safely work on a smaller relative capital than is necessary in this country.

stances almost equalling it in disaster. During a period of heavy collapse the losses suffered by banks in certain towns have amounted to a large percentage of their assessed value.

³² There are no laws, properly speaking, in Canada, on the subject of private banking, though, as experience has shown, some regulations might have been embodied in specific legislation with advantage. The only provisions affecting this class of bankers are contained in two clauses of the General Banking Act, viz., one to prohibit them from issuing circulating notes; the other to prohibit them from assuming a corporate name, such as that of the "Troquois Banking Company." These provisions are obviously reasonable.

Beyond the minimum required by the Banking Act the members of each corporation in Canada decide for themselves what the capital shall be. It depends largely on the sphere they intend to occupy, and how far they mean to extend it.

A few Canadian banks have their headquarters in small towns, and some have no branches. For these the minimum of \$250,000 is sufficient.

At the other end of the scale is an immense corporation like the BANK OF MONTREAL, with its head office in a large commercial centre, branches all over the Dominion, agencies in the United States and England, and doing business not only with the mercantile community but with governments and great railways.

An institution like this can well employ such a capital as \$14,000,000 or more.

Between these limits are banks with capital ranging from \$250,000 to \$8,000,000.

Tracing now the business of a bank from its origin, the first consideration will be *in what form* shall the capital be held before business is actually commenced? Our Bank Act answers this question by requiring that a joint-stock bank before commencing business under its provisions shall have the whole amount of its capital in cash. To ensure this it is required that the cash shall be placed in the hands of the Government, and that no business shall be done before an authorization is issued.

A bank before opening for business in Canada will need to arrange for correspondents in England and the United States. Much will depend upon a proper choice and satisfactory arrangements in these matters. It will also be prudent, as soon as possible, to invest some portion of the capital in realizable securities, and not hold the whole amount for discounting. Such bonds would form part of the reserve against the liabilities which the bank would begin to incur to depositors and noteholders, and yet bear a moderate interest. They are useful also to further needful arrangements with English correspondents. Moreover, the holding of such securities strengthens the position of the bank, and its credit with the public.

THE ARRANGEMENTS OF THE OFFICE.

In the choice of an office, two questions arise, the first of which will be its *locality*; a matter of as much importance to a bank as to a merchant. It should, if possible, occupy a corner, for the sake of light. It should be in the wholesale quarter of the city, or if there be no such quarter, then not far from other banks if there are others, not far from the post office; near the market, or the exchange, or board of trade; and also, if possible, near to the retail shops.

A building will naturally be *rented* at the outset, for it would be imprudent to devote capital to building at so early a stage, and one should be sought that is substantially built, a good fire risk, with other good

buildings about it, and with a lofty main floor to give the bank a respectable appearance.

As to the internal economy of the office, *convenience for doing business* should be the dominant consideration, and not show or ornament; too much of which displays bad taste, though the fittings should be solid and as good as money can buy.

Light should be carefully studied in the internal arrangements, for it is of the utmost importance both to those who handle money and those who keep books.

A bad bill, or forged paper, may be discovered in a good light, where it would be passed when light is dim. A mistake also in bookkeeping which would be readily apparent in a good light may easily be passed by when light is insufficient.

The next important element is a judicious choice of *officers*, who should be men who understand their business, and display civility and attention to customers and the public. The subject of officers, the division of their work, their duties and qualifications will be fully discussed later. It will be sufficient to note here that upon a proper selection of officers, a convenient arrangement of their work, and an efficient system of check and supervision no little of the success of a banker depends, especially in times of competition. Without going into detail as to what constitutes the special qualification of each, let it be noted that there are certain qualities which are essential to the success of any of them.

A bank officer should be of good character, honorable and trustworthy in the instincts of his nature; in fact, he should be what is generally understood as a "gentleman" not in outward manners merely, but in character. He should have a good natural aptitude for *arithmetic* and have been well trained therein. No matter how intelligent and well educated a young man may be in other respects, a want of aptitude for arithmetic will prove a fatal bar to progress.³³

A bank officer should write a good plain hand and make plain figures. Many a mistake, costing the labor of scores of hours of officers to find out, has been occasioned by carelessly-formed figures. He should have a good general education. What is known as a good English education may be said to be essential. Some drilling in mathematics, as distinct from arithmetic, will be found highly useful as a young officer advances in his profession. A university education is not necessary in the case of a young banker; indeed, it is rather undesirable than otherwise, for to acquire it a young man will be carried too far on in years before the long course of training begins to fit him for the work that is to occupy his life.

³³ A former General Manager and President of the Bank of Montreal was well known to have an extraordinary faculty for arithmetical calculations. To this he owed all his early advancement, and some of his later remarkable success. He had, of course, other prominent qualities which would have made him a notable man in any sphere. But it was his arithmetical faculty that laid the foundation of his success as a banker.

Bank officers, like other employees, require to cultivate habits of civility and patience. All sorts of people are to be found at the counter of a bank. Some of them are ignorant, who want much telling what to do; some are impatient and unreasonable, who are nevertheless good customers. A bank officer who is fretful and impatient will drive away both classes of customers. He will need also to cultivate a habit of *reticence*. It is a cardinal rule in all banks that clerks and officers must never talk outside of what they see or hear inside. The whole business is confidential. A banker who is master of his business will, amongst other things, sufficiently understand human nature to gather about him such men as are here indicated. One by one, and during a considerable time, he will pursue this end, selecting and training his officers until they are thoroughly efficient. With such men about him, a banker can carry on his business satisfactorily so far as its internal economy is concerned, and fulfil the purpose for which the business was commenced.

Thus far with regard to a banker's staff and machinery. A banker, however, may carry on every department of his routine business efficiently, and yet fail in the essential object of doing well for himself. He may fail so far as not only to lose part or the whole of his own capital, but a part also, or even the whole, of the money deposited with him. These, unfortunately, are not suppositions and possibilities only; they have become in not a few instances very exasperating facts; causing distress in thousands of households, and embarrassment to men in business. Success, then, to the banker is primarily what it is to the merchant, viz., that he should continue to fulfil his functions and meet his daily obligations to the end, preserving his own capital intact, to say the least, but adding to it from time to time in prosperous seasons until he accumulates a reserve fund to provide for contingencies. For, as a merchant desires to increase his capital until it amounts to a competence, so a banker, with equal propriety, desires to accumulate such a surplus, after a reasonable distribution of profits, as will amount to a reserve sufficient to render impairment of his capital impossible. But to attain this he must be thoroughly *au fait* in the art of lending money and avoiding losses. A summing up of what the banker should be himself may be indicated as follows:

(1) A successful banker, like a successful merchant, must not only understand the theory and practice of his business and the laws with which it is carried on, but must, as a rule, have gone through such a preparatory training in the office as will enable him to see that every part of it is carried on with economy and efficiency.

(2) He must possess a sound judgment, and be able to discern between good loans and bad, desirable accounts and undesirable, and have such a knowledge of human nature as will enable him to know whom to trust and whom to avoid.

(3) He must possess, and keep himself possessed, of a good stock of information, well-sifted, and kept up-to-date.

(4) To enable him to make a right use of the qualities, he must have a well-balanced character, viz., a due combination of caution and enterprise, and neither of them in undue measure. Excess of caution will prevent him from taking up accounts and transactions that are safe, for to the over-cautious man risks loom up in unreasonable proportions.

On the other hand, if a banker has an excess of enterprise he will take up accounts that are undesirable, enter upon lines of operation that will result in lock-ups or losses; and so conduct his business with regard to reserves as to endanger the bank's very existence. The over-cautious banker may lose opportunities of business, but the interest of depositors and stockholders will always be safe in his hands. The over-enterprising banker will always have a tendency to enlarge his business beyond safe bounds, and possibly place himself in the position of being compelled in a time of pressure to ask assistance from his more prudent neighbors.

(5) The banker should have firmness and strength of character, combined with good will and courtesy.

Of these the first are by far the more important. While a banker, in his intercourse with men, is bound, like other men, to be courteous, he has to beware of being what is generally known as "*a good-natured man.*" For a man whose predominant trait is good nature and benevolence runs great risk of becoming the prey of schemers or enthusiasts. If he is a banker on his own account, he will almost certainly ruin *himself*. If he is an officer in charge of the general business of a corporation, he will almost certainly bring it into embarrassment.

On the front page of the New York BANKERS' MAGAZINE there used to appear the following motto: "*Favor and benevolence are not attributes of sound banking. Strict justice and the fulfillment of contracts are its essential elements.*" This witness is true.

It is the commonest of truisms that a banker must be able to say *no*, and stick to it; but, on the other hand, a banker who is always saying *no* will drive away good business. If a banker gets a reputation for being crusty and sour-tempered, people who have desirable business to offer will avoid him. Such a reputation will not drive away men of the undesirable sort; for, as a rule, they care nothing about the reception they get, if they can only get the money. But men of standing and position, who know that what they propose is reasonable, will not put up with surly criticisms.

The old Latin motto, *Suaviter in modo, fortiter in re*, exactly expresses the combination of temper needful to a banker. *Courteous in manner*, he will give even a negative answer without giving offence; firm in his position, he will maintain it in spite of all the importunities of customers if what is asked is undesirable.

(6) A banker should have a shrewd judgment as to subordinates. Men have various capacities; and to know how to put "the right man in the right place" is all-important. Especially is this the case under a banking system like that of Canada, where branches are put under charge

of men who exercise almost all the powers given to the corporation. On the exercise of a sound judgment in this respect, a large part of the success of a joint-stock bank with branches depends.

Finally, it should be said, that a banker especially in the highest post, needs to be a man of considerable "nerve." There always have occurred, at times, and always will occur, crises, times of difficulty, emergencies that could not be foreseen, and sometimes startling events that come like "a bolt out of a clear sky," sufficient to try the nerves of the strongest man.

A great bank suspends payment: confidence in all banks is shaken, depositors and noteholders crowd round the counter all day long, and for days together. In these circumstances a banker needs to keep his head cool, and will not only avoid yielding to panic himself, but will be a centre of strength and confidence to others.

Two instances of this kind of courage and coolness may be given.

On the occasion of the failure of the Commercial Bank of Canada, some thirty years ago, a panic seized upon the public of Toronto, and a severe run set in on the banks having their head offices in Ontario. Their counters were crowded with an excited multitude for several days, and one of the banks had to be supplied with gold by its strong neighbors. There was excitement in Montreal, too, and on the third day a telegram was received from a well-known public man there stating it as the opinion of some prominent financiers that a general suspension of specie payments by the Western banks should take place. This advice was under consideration by bank presidents and directors in Toronto, and some were so alarmed that they recommended its acceptance. But the Cashier of one of the banks, a young man, strenuously opposed such a humiliating course, and declared that so far as his bank was concerned, his advice would be to stand out to the last dollar. This counsel prevailed, and the banks were saved from a step which would have damaged their credit beyond recall. Shortly afterwards, a step was taken by the Government which stopped the panic.

The other case was that memorable action of the Governor of the Bank of England on the occasion of the crisis which had overtaken the great firm of Baring Brothers. This is referred to elsewhere, but may be briefly noticed here. Had that house suspended, some eighty million dollars of bills would have gone to protest, followed by an incalculable number of failures in all parts of the world. The prospect of a world-wide financial panic was sufficient to shake the strongest nerves. But the Governor of the Bank was equal to the occasion. He clearly perceived it was a case for the co-operation of the whole banking interest of the United Kingdom, and called on every bank of importance to join in taking the risk of paying this enormous amount of bills on the security of the assets of the house. The call was responded to at once. The risk was divided amongst the banks without difficulty; whereupon the Bank of England made it known that arrangements were made to pay the bills, and the whole financial world in every quarter of the globe breathed a sigh of relief. The courage and coolness of one man saved the situation.

CHAPTER XIII.

THE BANKER'S INFORMATION AND OTHER ELEMENTS OF SUCCESS.

INFORMATION NECESSARY TO SUCCESSFUL BANKING—CHARACTER AND CAPACITY OF BORROWERS—FAILURES IN BUSINESS—AMOUNT OF CAPITAL—FAMILIARITY WITH BANKING LAWS—DEALING WITH EMBARRASSED BORROWERS—KNOWLEDGE OF SECURITY VALUES—CREDITS—MERCANTILE AGENCIES—EXCHANGING INFORMATION.

THOUGH a banker has proceeded so far as to have adequate capital, due authorization, suitable correspondents, and well-equipped office and staff, he will find himself utterly unable to proceed in the way of making profit, without an adequate stock of *information*.

If a young banker has passed through the grades of a banking office, and acquired proficiency in counting money, keeping books and handling securities, he may fancy he is well equipped for business, but this is only one-half of a banker's business, and by far the easiest half. It is when persons come with proposals for *Loans*, or for the *Discount* of business bills, that the banker finds the necessity of another sort of stock than money; and another sort of capacity than handling it.

A person, for example, comes into the office, with a proposal for a loan. The banker has funds, and he would be glad to employ them. But he is at once confronted with the question, who and what is the person proposing to borrow? Who and what is his proposed endorser? What is the real value of the security he offers?

The primitive banker, sketched in the beginning of this treatise, a wealthy and successful man of business and long established in the community, knows everybody in it, and *has* already this valuable stock of information at command. He can proceed safely enough in the business of lending. But woe to the unfortunate banker who would attempt to do a loaning business without information.

Information, then, being essential to successful banking, and to successful trading, too (for banking and commerce in this respect are closely connected), it is proposed, at this time, to enter more fully than heretofore into a consideration of the whole subject.

There are four general heads under which may be grouped all the information a banker needs as to the *persons* who propose to negotiate loans or discounts with him; viz.—

- 1st. Antecedents.
- 2d. Character.
- 3d. Means.
- 4th. Experience.

Each of the above heads of information has peculiarities of its own, and each of them ramifies into numerous particulars.

For example, with respect to character (for the above need not be taken in their order), the most essential quality is obviously honesty and uprightness; that is, that a man can be depended upon to *perform his promises*, to speak the truth and attempt nothing unfair.

It is not generally appreciated as it should be, that all the dealings of a banker in the way of lending money are based on *promises*; i. e., the notes a merchant offers for discount, the acceptance of another merchant to bills of exchange, the endorsements on which so many millions of loans rest, even the contracts contained in debentures, are nothing but *promises* in writing. They all depend for their value on the character of the person promising. They are capable, indeed, of enforcement by law, but they would lose all negotiable value unless they could be depended upon without law. It is one of the marvels of modern banking that so many millions of assets consist simply of pieces of paper on which is written, either *I promise to pay*, or *I will see that some other person* fulfils the promise he has made to pay. Even such securities, so called, as the bonds of governments, or other corporations, are nothing but promises to pay certain moneys after a term of years, which promises may be kept or broken as circumstances develop. Such promises to the amount of millions have been broken (the bonds go into default, as the phrase is), and bondholders, on endeavoring to enforce performance by law, have repeatedly found themselves baffled and disappointed.

Certainty of performance, therefore, is the foundation of all dealing in promises; and it is only when a high degree of reliability is reached amongst any circle of customers that a banker can carry on business with success.³⁴

But reliability as to *statements* is almost as important as reliability as to promises; inasmuch as a banker's business is largely founded on the *representations* made to him by his customers. There are degrees of reliability in men. One will make misrepresentations, deliberately, from unscrupulousness, another from a sanguine temperament, and then from simple carelessness. Some men will tell a banker what they know to be false, though it is rare for men to go so far, unless in an extremity. Others (or the same man at other times) will color representations, diminishing some things, and exaggerating others, making the favorable points too prominent and keeping back those that are unfavorable; the effect being that a false impression is produced, although no direct falsehood has been spoken. Beyond all this lies the terrible region of fraud and forgery, where a borrower brings promises to pay for discount, of which the supposed promiser never existed, or, if he exists, that he never saw.

³⁴ It is generally known to bankers that the degree of reliability as to performance of promises is very high in the course of banking business in England. A protested bill is nothing but a broken promise, yet some banks doing a large business in England have so seldom had bills protested, that they looked upon such a case, when it did happen, to be almost as disgraceful as forgery.

When a man has gone so far as this, he has put himself out of the pale of bank dealings. His proper place is in the criminal dock.

VARYING DEGREES OF RELIABILITY AND CAPACITY.

But apart from such a case as this—between the man of absolute honesty who can be relied upon to perform his promise, no matter what it may cost him, and the men whose word cannot be relied upon at all, there are many degrees of reliableness. Men there are who on all ordinary occasions tell the truth, but whose moral courage fails them in an emergency. There are others who have a character for making misstatements to their neighbors, who never try to deceive their banker. The banker learns by experience how to balance conflicting reports. He will note whether statements may be made from personal prejudice, trade rivalry, or political antagonism. Equally will he guard against being misled by statements of a favorable nature that circumstances do not justify; for this is the more dangerous of the two. The one would lead to loss of business, whereas the other would lead to a loss of money. And, as Mr. Gilbart has well observed in his *Treatise on Banking*, when a banker has a written report on a customer before him, he will note as much what is omitted, as what is said. A man may be eminently honest and truthful, yet it might be very undesirable to lend him money. There are honest simpletons and truthful visionaries.

There are men who while scrupulously careful as to *performing* promises, are rash and sanguine in making them.

There are men who enter upon business operations who are foredoomed to failure from the outset. A banker, therefore, in the course of his loaning operations, must direct his attention not only to honesty but to *capacity*.

This quality, like honesty, has many degrees and varieties. It is a composite quality, made up of various elements which are to be found in various combinations in different individuals.

Some of these are essential, such as good judgment, and common sense, together with a due combination of caution and courage; not an over-developed cautiousness, for in this case he would be afraid to run reasonable risks, nor an overweening courage, for in that case he will venture into rash operations. Capacity such as will make a man a desirable borrower is a sum of desirable qualities well and reasonably combined. For example, no man can be a desirable borrower from a bank who is not able to put forth strenuous exertions in emergencies; for such contingencies occur in every business; and if he cannot meet them he will be overthrown.

If a man is given to pleasure, and spends too much time in the enjoyments of the table, especially in drinking, he will prove to be a very undesirable customer for the banker. It need scarcely be said, except as a passing allusion, that all vicious pleasures must be shunned by every

man who values his business character. Amongst these gambling and betting must be included.

A banker, then, has all the foregoing points to consider in their place and order. How, for example, can it be safe to extend credit to a man who is capable and economical, if he is not honest? Or, honest and industrious, if he has no ability? Or, capable and economical, if he has an idle disposition? Or, honest and capable, if he is a drinker or a sensualist? A perfect character can never be looked for, but it is certainly necessary to take the foregoing points into account.

The *antecedents* of a man are generally more easy to ascertain than his real character, especially when his life has been spent in the neighborhood. When, however, a considerable part of a person's career has been spent in a distant locality, it is sometimes difficult to arrive at the truth. Enquiries as to antecedents obviously gather about several leading points. The first is, whether he has or has not been successful? Has he ever failed? If he has failed, then under what circumstances? Was it at a time of general depression, when the strongest firms could scarcely hold their own, or was it when affairs in the commercial world were working smoothly? And what was the *reason* of his failure? Was it incompetency, idleness or extravagance? Did he over-trade or speculate, or neglect to insure? Was he carrying on a business of which he knew nothing? Was he foolish in crediting, and did he let every shiftless fellow in the community take advantage of him? Was he living in too fine a house, making too great a show, perhaps building or buying property when he ought to have kept the money in the business? Prudent bankers will endeavor to ascertain in addition whether he got a settlement, and how he got it. Also what did his creditors think of it, especially what did his banker think? Particularly, was there any suspicion of *fraud* about his failure, or any attempt to take advantage of the easy provisions of a Bankrupt Act and make money by declaring himself, or by collusion, being declared, insolvent?

A banker might indeed save himself the labor involved in inquiries of this kind, by making it a rule never to lend money to any man who has failed under any circumstances. It would, perhaps, work to his disadvantage at times, for a man who had learned lessons from experience may be conducting a prudent and prosperous business. But it is certain that one who has failed is apt to fail a second time. When times of difficulty come, a person who has once failed, is strongly tempted to give up the struggle even when really solvent.

A banker may also reasonably enquire whether the man has had fair *success* in business, whether he "got on" as the phrase is. One who has barely kept his head above water may sometimes prove an undesirable borrower. But such a man may have had to struggle with unusual difficulties, and yet have paid his way, and maintained an honorable reputation. Such men, although they do not accumulate money, are, sometimes, the very "salt of the earth," and among the safest of a banker's customers.

AMOUNT OF MEANS OR CAPITAL.

The third matter respecting which information will naturally be sought is as to a proposed customer's means, or *capital*. Some men who lend money would say that this is the only thing worth enquiring about. Without going so far as this, common prudence suggests that a man's capital is a matter of the first importance. Yet it is extremely difficult to get accurate information about it. Men almost invariably consider themselves worth more than they really are, hence it is necessary to criticise all statements of assets with a view to correcting over-valuations. But there are men in business and desiring to be customers of banks, too, who never make out a balance-sheet at all, contenting themselves with mere lists of accounts due to them, and now and then estimating the value of their stock by guesswork.

If they own real property, they generally consider it worth its cost. Of liabilities they rarely keep an accurate account, except possibly of notes they have signed. Thus, judging both their assets and liabilities by guesswork, they estimate their means by guesswork too; guessing themselves to be worth one or more thousands of dollars, they claim credit accordingly.

But a banker would be simple, indeed, who would be satisfied with this. He will ask for what is generally called a "statement," which statement, for obvious reasons, should be in writing. Yet a prudent banker will rarely act upon a written statement without a conversation with the party who has submitted it. Such conversation will often bring out points that a bare statement leaves unrevealed, and will prove, if carried out judiciously, of great value to the party concerned, as enabling him to understand his real position. Moreover, in many cases, this will afford a fair index to the borrower's habit of mind, and show how far he is to be trusted in any future representations he may make.³⁵

With regard to the *Experience* a proposed borrower has had in the business he is carrying on, it is a comparatively simple matter to ascertain it. If he has always carried on business in the same town or neighborhood his experience will be a matter of notoriety.

If it has been gained in some distant place the information received as to antecedents will cover the point.

But now supposing that the banker has acquired a sufficient stock of information to justify him in commencing to deal with borrowers, he must not imagine that he is exempt from the trouble of making future enquiries. Changes are constantly taking place, and it is necessary for a banker to keep his information abreast of the times. Last year's reports are not a safe foundation for this year's business.

Premontory symptoms of coming trouble are of the first importance

³⁵ There is, however, a mode of giving information which may be more valuable even than a written statement. When a merchant lives in a distant town and his banker casually calls upon him, the merchant may then take him into his office and open the private ledger containing his last stock-taking and statement of profit and loss. It is impossible for this to have been made up for the occasion, and the very act of doing so will tend to inspire confidence.

for a banker to consider. Especially such as come under his own observation. He will, however, take care that his observations are accurate and his information to be relied on. He will constantly be coming into contact with the better informed class of the community and have the opportunity of separating the chaff from the wheat. He will always be on the look-out for information, even when transacting ordinary business, but he will beware of encouraging his customers to gossip to him. This is particularly the case needful in country towns where a banker has farmers for customers.

In seeking information a banker will be careful not to waste his customer's time by asking too many questions. If he gets a reputation for what is called "pumping," he will be avoided. The time of mercantile customers is probably as valuable as his own, and while the information he may receive will have a direct monetary value to him, it is no benefit to him who imparts it.

In large cities there are generally to be found persons who have a sort of faculty for acquiring information. They pick it up on 'Change, or at the Club, or at Board of Trade meetings, or in traveling. They have often a kind of instinct for discerning the quality of information and know what is worth talking about and what is not. Acquaintance with a man of this class is invaluable to a banker.

The knowledge to be acquired through Mercantile Agencies is dealt with further on.

There are, however, other things that claim the attention of a banker besides information as to the people with whom he is likely to do business. The first of these is a knowledge of the laws under which he does business. Later on in this work there is given a synopsis of the law relating to joint-stock banking in Canada and the United States. As by far the larger part of the banking of the country is carried on under this law it will be assumed that a Canadian banker has become familiar with its provisions, especially with those relating to his function as a money-lender and the securities he can take therefor. He will learn from thence what he has power to do, and what he is prohibited from doing, what are his powers and limitations regarding real estate and fixed property, also as to security in the shape of warehouse receipts, bills of lading, liens, hypothecations, and other matters. Along with this he will learn what the law allows in dealing with depositors of various classes; also what are his obligations toward the Government itself. The provisions of the Bank Act should be so familiar that it will become practically impossible for him to incur any of the penalties provided for violating them.

Besides this special knowledge of the banking law, a banker will need a general acquaintance with the law of bills of exchange, and promissory notes; what constitutes their validity, and negotiability, also recourse upon endorsers, policies of insurance, guarantees, mortgages on real estate, chattel mortgages, how to proceed to enforcement, and other matters relating to securities. A banker need not be a lawyer to have such knowledge of these things as is necessary to conduct his daily business, and

give instructions to his clerks. There will, however, arise at times questions regarding particular points of procedure respecting which he would do well to consult his lawyer. But, as he proceeds, a banker will gradually become as familiar with what he has power to do and what he has not as a merchant is with the tariff.

With regard to cash reserves and investments a banker should not only understand what is the proper proportion to be observed, but be possessed of sufficient skill and firmness to guide his discounting operations so as to maintain them.

An important qualification of a successful banker is the faculty of dealing with customers who fall into embarrassment, and of realizing securities to the best advantage. In spite of all a banker's caution he will find himself compelled at times to deal with embarrassed customers (embarrassed through no fault of his), and compelled also, much as he may dislike it, to devote time and skill to the working out of Insolvent Estates. Times of difficulty recur periodically in the commercial world, when insolvencies rise far beyond the usual average. It is in these difficult times that a banker's judgment and skill are severely tried; not only in making the best of securities, but in considering that most difficult question, Shall he support his customer, and nurse him into a safe position, or shall he refuse further advances and let matters take their course? Which of these lines to take is generally a perplexing question to answer. Either of them may lead to loss, if a mistake is made. The customer's business may be too deeply embarrassed to permit of its recovery; in that case additional advances will only lead to additional loss. On the other hand, if it is not too far gone, a little timely help may tide a worthy and capable man over temporary difficulty and preserve him as a good customer to a future time.

To refuse help altogether, would lead to certain loss. There is thus the alternative of certain loss on the one hand, of possible avoidance of loss on the other, with the other alternative that the help may prove insufficient, and the loss be increased. The only safe course to follow in such cases is this: if the party is honest and has the capacity to succeed if help is rendered—*then* care should be taken to ascertain, by the banker's own examination, whether the party is really solvent; and, next, to require such additional security as the law will allow, and as will not prejudice the customer's position. If the debtor is thus kept on his feet, it is not unreasonable to require that the banker should have some supervision over the business until such time as circumstances prove to be unnecessary. If such a step is taken, the banker will, of course, carry it out prudently, and not give the customer reason to complain of inquisitorial prying, or of unreasonable interference with his business.

It is, at all events, certain that this course has been more than once tried, and with the best results.

A banker will not have proceeded far in the way of his discounting before he perceives the importance not only of information respecting his immediate customers but of the persons with whom they deal. He

will find it necessary also if he is doing business in a city to become acquainted with the various classes of *securities* that are offered for loans, or which it may be desirable to purchase for investment. It will be well also that he should become acquainted, in some degree, with the staple *products*, which, under our banking law can be transferred to him as security, and with the prices current from time to time, and the condition of the trade in general.

A banker should be sufficiently well informed to be able to advise an importer, let us say, to moderate his purchases, giving reasons therefor; or an exporter whether to warehouse and hold for a time, or to engage all freight possible and bring his goods to market. This by no means implies that he shall acquire such technical knowledge as would enable him to either buy or sell the commodities. No banker could pretend with any reason to discuss the quality of a piece of cotton goods with a merchant, or to criticise the workings of the gangs in a sawmill with the owner. But he should know enough, let us say, of the trade of a wholesale merchant to judge whether he was carrying a reasonable or unreasonable amount of stock, as bearing on the amount of the credit such a merchant might apply for. Similarly, with regard to a flour mill, a banker should be well enough informed about the business to judge whether a proposed credit would be reasonable. He should also have such a general knowledge of the timber business in its financial aspects as would enable him to judge whether the scale of his customer's operations was in proportion to his capital, and whether his credit was being used economically. He should know how much lumber a given expenditure ought to produce, and be able to judge whether the business was well managed or otherwise by the working of his customer's bank account.

And so with every leading line of business in which his customers are engaged. It tends to establish good relations between the banker and the merchant, when a man of business finds his banker well enough informed to be able to discuss the financial aspects of his business. From such a banker a merchant will more readily take, not only pertinent hints and ordinary advice, but those checks and refusals which at times are necessary to sound banking.

It is not only, however, with regard to general lines of credit to the customer himself, that the banker's information is important, but also with regard to the credit that his customer gives to those who buy from him. A banker should be sufficiently informed to be able to say to a wholesale merchant who offers bills for discount, "You give a large line of credit to such a one. Probably you suppose you have his whole account. But I may tell you in confidence that you have not. He buys the same kind of goods to my knowledge, from another house, and my judgment is that both of you are giving him more credit than is desirable."

A merchant would be foolish indeed who did not take such a hint in good part and profit by it.

The conversation may take the shape of a criticism of the standing of a wholesale house. This house buys goods from a manufacturer, who is

wise enough to consult his banker about credits. It would suit the manufacturer to sell the merchant a larger line of goods, but he does not know enough about him to take the risk. Here the banker may feel justified in giving his manufacturing customer the benefit of confidential information. In doing this he will consider well the kind of man to whom he is speaking, and what use he is likely to make of the opinion expressed.

Exporters are increasingly in the habit of attaching bills of lading to the bills they draw. These are commonly directed to be held until the bill of exchange is *paid*. But there are exceptions. It is in regard to these that a banker's information might be all important. Some merchants in Great Britain will not accept bills at all unless the bills of lading are given up; or they may require that bills shall be surrendered to a certain amount, and in some lines of export business it is not customary to attach bills of lading at all. In such cases the exporter has to rely altogether on the standing of the foreign house; and a well-informed banker can render his customer invaluable service. The banker may possibly express his opinion rather in acts than in words. He will not take the bill except with documents attached; or, if the documents are attached, he will not consent to their being surrendered before payment.

A Canadian banker will therefore take means to keep his information well up as to changes in foreign firms.

In the commercial centres of Great Britain the facilities for speculation are so multiplied as to constitute a positive temptation. A shipowner in Liverpool may be drawn into dabbling in cotton; a Glasgow grain merchant may try his luck with iron. As to London the opportunities for speculation are infinite, and embrace everything going on in the business world.

It is therefore of high importance to an exporter and a banker who deals with exporters to keep his information up to date.³⁶

MERCANTILE AGENCIES.

Mercantile agencies have been so remarkably developed during the last thirty years that they are indispensable to all who give credit, either in the shape of goods or money. The information they place at the service of their clients goes much beyond mere books of reference, and embraces detailed reports covering all four of the points referred to in an earlier part of this treatise.

Such reports, too, are often accompanied by balance-sheets, so that a banker has furnished to him what are practically a number of business histories condensed into a small compass and so methodically arranged as to be accessible with the smallest trouble.³⁷

³⁶ See the chapter on commercial bills drawn in sterling money.

³⁷ The records hitherto published by one credit agency in Great Britain are of exceptional value, being arranged on scientific principles, and enabling every leading circumstance affecting credit to be taken in at a glance. It is well known in banking circles that the conductors of this agency have been men of remarkable information and sound judgment.

A banker, however, will find it prudent to bring a critical judgment to bear on such reports, for a mercantile agency makes mistakes, as well as its clients. It can only report what is reported to it; and its reporters, though generally well-informed men, do not, and cannot, know everything that is occurring.

In examining these reports it is always important to note the difference between *facts stated* and *opinions expressed*.

With regard to the balance-sheets in such reports, it should be remembered that they are communicated by the party himself. A banker, of course, will compare such balance-sheets with any that have been rendered to him.

But these reports are not the only reports that mercantile agencies publish. An important part of their business is to collect information of the *changes* that occur, especially those of an unfavorable character. Thus they furnish their supporters with lists of *suits* that are taken, and what is more important, of *chattel mortgages*, *bills of sale*, *judgments*, *executions*, and *insolvencies*. Partnerships also come within their purview; those formed or dissolved, together with information as to *death* of partners, which, of course, ends the partnership. The lists containing such information are long and the task of examining them laborious. But no banker who does an active business with the mercantile community can afford to pass them by, or to look over them in a perfunctory manner. An omission to notice some single unfavorable particular may cost a banker or his customers thousands of dollars, especially if it relate to a foreign firm.

Bankers at times ask information of *one another*. Formerly there was scarcely any other source of information available, and much correspondence was carried on between them on the subject. But time has brought new developments. Bankers do not now correspond as much as they once did respecting their customers, though they do occasionally compare notes in confidence. There are considerations as to such information that do not apply to any other mode of obtaining it. For example, let us suppose that a banker desires of a confrere information as to one of his customers. If the customer is in a good position and doing well, there is little difficulty in answering. But if the contrary is the case, what then? The account of such a customer may be one that the other banker is carefully "nursing," getting increased security whenever he can; hoping all may be well, yet being by no means sure.

Is he to damage his customer's credit by telling a confrere this? If he does, he may bring about a stoppage and ruin his customer. On the other hand, if he conceals the real position and gives a favorable opinion, he will violate the confidence which ought always to exist between bankers.

The result usually is this: As bankers never care to give an unfavorable opinion, while a favorable one may be unjust, and as the declining to express an opinion would be construed unfavorably, they seldom

or never ask one another at all, that is, as to their own respective customers.

A banker in Canada who buys a large amount of bills upon houses in centres of British trade, will find it advantageous to visit such centres occasionally, and compare notes on the spot, with his banking correspondents. In so doing he will learn many things which would never be communicated to him in writing, and which no mercantile rating would give him any idea of. There is this reason for taking such a course, that English bankers never commit themselves in writing except to very guarded statements. They are in the habit of stating that such and such a firm is "*considered to be worth*," say, a hundred pounds, or it is "*good for engagements*."

Such reports generally fail to meet the need of the enquirer. To say that a firm in Britain is good for a few hundred pounds, when the banker on this side knows that they are making purchases amounting to many thousands, is obviously insufficient. And to say that such a one is "*considered*" to be "*good for his engagements*," if the statement is taken literally, is simply to suggest that he has no capital at all.

If specific information is wanted, the better course is to ask specifically, giving exactly the point to be covered. When the question is put in a vague and general form, "*What is the standing of such a one?*" it will bring, as a rule, only a vague and general answer.

But if the querist puts such a question as this: "*Would it be safe for our customer here to ship such a firm two thousand pounds' worth of merchandise without security?*" he is likely to get a much more specific answer, guarded though it may be.

The last remaining source of information arises in the daily intercourse of a banker with his customers and the public. This has been referred to already, but it may be desirable to observe that a banker, even while transacting routine business with customers, or mingling with his fellows in the club or elsewhere, will note anything affecting his interests; and by practice will acquire the art of doing this even when least appearing to do it. A casual remark dropped in conversation across the table, or a query addressed to him in a chance meeting with an acquaintance, may give to a quick intellect a clue which, if followed up, will lead to most important consequences.

Almost every particular in this and the preceding chapter has an application to Commerce as to Banking. The wholesale merchant with his large circle of customers is under the same pressure to keep up information as is the banker. Both mainly rely on the same sources of information and their interests, as regards information, are identical. They cover the same ground, and are subject to the same conditions. Both are dispensers of credit, the one in money, the other in goods, and the same general laws of credit are applicable to both bankers and merchants.

CHAPTER XIV.

LOANS.

DIFFERENCE BETWEEN LOANS AND DISCOUNTS—LOANS TO VARIOUS CLASSES—TO FARMERS—TO GRAIN MERCHANTS—WAREHOUSE RECEIPTS OF VARIOUS KINDS AND THE LAW RELATING THERETO.

WHEN a banker has acquired sufficient information as to persons and securities to enable him to part with money with reasonable assurance of its return when promised, he may enter upon that difficult field of operations which will prove either the making or the marring of him, viz., the conducting of Loans and Discounts. It is obviously in this department of a banker's business that the connection between Banking and Commerce is most clearly shown, and most constantly in operation. The public at large has to do with banking corporations as issuers of circulating notes and receivers of deposits, but in making loans and discounting bills, banks have to do with the commercial classes almost exclusively. It is well, however, at this stage, for the sake of clearness to reiterate that the word "commerce" is used throughout this work in a broad and comprehensive sense. Besides the merchant, properly so called, the whole class of manufacturers is included, inasmuch as they require to *sell* what they produce and to *buy* their raw material. For the same reason, the whole farming class is included; for the farmer appears on the market both as a *seller* and a *buyer*. He sells his products, and he buys his machinery and materials.

Banking is distinguished from money lending in that it requires an active "*turn-over*;" hence loans for periods of years are entirely foreign to its scope, as, also, are loans of money which, even if made to a business firm, cannot be repaid periodically out of its active operations. To loan a manufacturer money to build or equip a mill is a violation of prudent banking, even though the security may be good. The whole operation of loaning money on security of land, buildings, ships, or mines, belongs to another category of business than banking. This has been so recognized by the Legislature of Canada in granting charters to banking corporations, that they are absolutely prohibited from lending money on immovable property.

This, therefore, being understood at the outset, let us enquire what line of loans are called for by the operations of Commerce? On what ground, and with what documents of security, can a merchant or manufacturer properly approach a banker when he desires the use of the bank's money?

DISTINCTION BETWEEN LOANS AND DISCOUNTS.

This question opens up a variety of considerations, the first of which is the distinction between loans and discounts.

Though both classes naturally arise in the dealings of bankers with commercial customers and both are exactly alike in that they draw money from a bank, there are fundamental differences between them in their origin, nature, and practical working. The main difference is this. When a Merchant or Manufacturer has made a sale of goods and received in return a written promise to pay for them at a definite time, he is in possession of a valuable document, which he may offer to a banker for *discount*; that is, he will ask the banker to give him the amount promised in the document, deducting the interest thereon. This deduction of interest beforehand is what the word "discount" means. The merchant, of course, signs his name to the document, and this signature, in law, operates as a guarantee of payment, should the other party not fulfil his promise.³⁸

The banker, therefore, having a document founded on a sale of merchandise (for value received, as the technical expression is), has a *prima facie* assurance that merchandise of sufficient value to ensure payment has passed from the seller to the buyer. This transaction between the banker and his customer has a close analogy to the purchase and sale of a commodity; the bill being the commodity, and the net proceeds of the discount the price paid for it. And it has been contended by an able writer on banking that this is the proper mode of viewing it; that is, as a *sale with guarantee*; and that the proper title of all such transactions in a banker's books and elsewhere is not "Bills Discounted," but "Bills Purchased." This practice has been adopted by some bankers, and it has the advantage of making a clear distinction between two classes of transactions, the confounding of which on this continent has worked very serious mischief.

A banking loan is a different matter in several respects. To begin with, it is, as a rule, applied for at an earlier period. The customer has no promise from a buyer to offer; in fact, in many cases, he has not any salable goods in possession when he negotiates the loan. What he desires is to borrow the money in order to *produce* the goods; or, in some cases to *bring the goods* to his warehouse. The transaction, to go to the root of it, is *borrowing money*, instead of *selling a document*. It is important to keep the distinction clear; but this is more difficult on this side of the Atlantic than in Great Britain, owing to the prevailing practice of having borrowings represented by promissory notes, made in the same form as those given for a purchase of goods.³⁹

³⁸ This is the usual course of business. But there are cases, especially in large financial centres, where a banker or bill-broker agrees to relieve the merchant from being so called upon. In that case, the merchant when endorsing the bill, adds the words "without recourse," meaning (and this is the legal effect of the term), that he is not to be called on for payment in case the bill is dishonored. The banker, of course, charges a higher rate for such a transaction.

³⁹ The notes which represent borrowings are often treated by Canadian banks

When a loan or standing credit is proposed to a banker, there arise four practical considerations: For how much? For how long? For what purpose wanted? On what security? The two first can be answered in a few words, but with regard to the two last, long explanations may be needed; and much consideration and consultation before an answer can be given. Here the difference between a loan and a discounted bill becomes very apparent; for when a trade bill is offered, three of the foregoing questions are answered by the bill itself. For it tells for how long, for how much, and on what security; and that without a word spoken by the customer who offered it. But when he desires a loan, a customer must explain himself on every one of these points, and be prepared to answer questions as to the two last.

There are as many varieties of loans as there are of *occupations* in the district where transactions arise, and each variety has its own special conditions. All these may be summed up in the following classifications:

1. Loans connected with Agricultural pursuits, and with the dealing in their products.
2. Loans connected with the products of Woods and Forests.
3. Loans connected with Manufacturing industries, as well as mining, fishing, etc.
4. Loans arising out of the Importing trade; and the dealing in manufactured articles.

All these are distinctly Commercial.

But there are also loans to various classes of corporations, such as railways, power companies, municipalities and Governments; or, to capitalists other than merchants, or to private individuals. Before proceeding to consider in detail the loans indicated, one general remark may be made with regard to all, viz., that *every legitimate loan from a banker will rest on a foundation of salable merchandise or collectible debts*. Loans, credits or advances that rest on fixed property, no matter how safe they may ultimately be, are not such as a banker can properly make, or should be asked for.

Even when security on real estate may lawfully be taken by a bank, as is the case in England and Scotland, it is always understood that merchandise must be possessed by the borrower to cover it. The property is not considered as the foundation of the loan, as is the case with a mort-

In the same manner, and entered in the same books as trade bills discounted, although the transactions they represent are radically different. The practice in England and Scotland renders such confounding of loans and discounts impossible. Loans or advances are made by means of what bankers here call "overdrafts;" the balance of the current account of the customer being allowed to run on the debit side for a specified term, up to a specific amount agreed upon. Such debit balances are usually secured.⁶ The security, however, is not given by the simple endorsement of a promissory note, but by a formal guarantee duly signed, sealed and delivered; or it may be by a mortgage of such property as the law allows to be taken as a basis for bank advances. This mode of making advances is called in Scotland the "Cash Credit" system. But the system of English banks is practically the same. Both agree in establishing a distinction between money lent to a customer and trade bills discounted for him.

gage company or capitalist, but as *collateral*. The means of ordinary repayment are always considered, and this must consist of merchandise.

This being premised, various classes of banking loans will now be brought under review, for the purpose of pointing out the conditions which govern them respectively, and the proper mode of dealing with them.

LOANS CONNECTED WITH AGRICULTURAL PURSUITS.

First amongst these come loans or advances to the cultivator of the soil, the farmer. Loans to farmers are the common staple of the business of branches of banks in rural districts, and the accusation made against chartered banks, that as a rule, they refuse to make such loans, is without foundation. But a bank cannot be expected to lend money to every farmer who applies for it.

If a farmer wishes, as he sometimes does, to borrow money to build a new house, or to make a payment on his land, or to improve his barns and stables, still less if he wants to buy more land, he cannot be surprised if the banker refuses to lend, for none of these will furnish the means within themselves of repayment. That could only be had by forcing the guarantor, or by selling the borrower's property. Further, if the applicant is known to be dilatory, or unsteady, or unreliable in his representations, he cannot expect a banker to part with his money in his favor, no matter how good a guarantor he offers. The fact that a farmer's land is heavily mortgaged, or that he does not own the property at all, are circumstances very unfavorable to borrowing, but if the farmer is a man of respectable character whose promise can be relied upon, and can offer a good guarantor, he may reasonably ask for a loan from a bank for the following purposes:

1. He may require an advance for the purpose of buying seed, preparing his land for a crop, meeting the expenses of gathering in and harvesting, all having in view the resulting crop.

2. A farmer whose principal occupation is breeding horses, cattle or sheep may reasonably ask, and the banker may reasonably lend, as much money as will buy such stock as will, when fattened, *be sold off the farm*. In this case as in the former the money loaned will furnish from within itself the means of repayment. But, obviously, more care is needed for this kind of business than the other.

3. In a dairy district a farmer whose principal product is butter or cheese, or raw material for making them, will, as a rule, need to borrow less than one who has to depend on his crops, for returns of dairy products are more rapid. But he may reasonably ask an advance for such a moderate amount as is required to buy fodder at certain seasons, or as is represented by the amount accumulating at his credit in the books of a cheese factory. (Care, however, is needed here, for this money is sometimes lent forthcoming.)

But in the last two cases a banker needs to watch that his money is

not used to buy stock *for the working of the farm*; and that cannot be sold without detriment. If he does, although the position is not so unpleasant as if his money were locked up in the land, he will still have a dead loan or lock-up on his hands, and commonly require to obtain payment by an unpleasant amount of pressure. In all dealings with farmers the banker will need to take care that his money is not used *to pay debts*. Almost every farmer has other creditors. Hence it is reasonable that a farmer shall be asked to state his position, what he owes, when it is due, and whence will come the funds to pay it.

In a country district a banker will naturally acquire such a knowledge of a farmer's business as will enable him to judge whether he is borrowing a reasonable amount, considering the size of his farm, or the extent of his dairy operations.

Some bankers, whose whole experience has been with city business, have a dislike to lending money to farmers, as a slow and unprofitable style of business. But in the rural parts of Canada, and the United States, as well as in England, dealing with farmers has generally been found desirable and satisfactory. Loans to farmers rarely result in loss if made with any degree of prudence, and often result in borrowers becoming steady depositors.

Passing from the farmer himself to the man who deals in his products, we are introduced to a class of loans of a more extensive character. Indeed, the operations of the men who buy the products of the farmer are so large as to have given rise to several well-marked lines of subdivision. One class confine themselves to *grain*, others to *cheese and butter*, others to *wool*, others to *cattle*, others to *hogs*.

The country storekeeper, indeed, may buy from the farmers about him more than one of this variety of products; but at the next move, there will be found a differentiation. The larger grain merchants buy grain and nothing else, the wool merchants wool, and so on with the rest. The dealings of each of these classes with a banker are of a character involving a different style of risks, and demanding a distinct line of treatment.

THE GRAIN TRADE.

The most important of these is the grain trade.

This trade is one of large transactions, quick returns, considerable risk, and small average profits; with possibilities, however, of heavy gains at one time, and heavy losses at another. It is a trade, too, in which large speculative operations are constantly going on in great centres. It affords fewer instances than any other of permanent prosperity, and more instances than any other of men who after a lifetime of dealings aggregating millions have ended their career in poverty. Yet no trade renders more valuable service to the country. The movement of crops to market sets all the wheels of commerce in motion. The men, therefore, who perform this service are entitled to honorable recognition in the community, and to a considerate hearing from a banker when they apply for advances.

But in dealing with such applications the banker will need to exercise all the faculties of judgment, caution and experience he possesses. The accounts of grain merchants are among the most *profitable* and, in many respects, the most indirectly advantageous that a bank possesses. They can be carried on with much facility in Canada, owing to the admirable system of circulation the country enjoys. The turn-over is large, the returns rapid, and the advances give rise to numerous bills of exchange, both inland and foreign, yielding collateral profits. Yet a prudent banker will never forget that the business is accompanied with unusual risks. When, therefore, a grain merchant proposes to obtain advances, the first consideration will be how much *capital he has of his own*, and in what shape that capital exists. For the amount of such capital and the shape in which it is held furnish an exact index to the amount he may reasonably borrow. No man has the right to hold grain on borrowed money, without having his own capital as a margin against loss to the lender. How much per cent. this margin should be, will depend on the season and the state of the trade; but, obviously, the higher the price, the higher per cent. should be the margin. In such circumstances there is more room for a fall, and more chance for a holder and even the bank itself to lose. When, therefore, a banker knows with reasonable assurance what his proposed customer's capital is, he can calculate how much it would be reasonable to lend him.

But this is only the first step. It would be most unwise for a banker to lend any man money to buy grain, unless the borrower had a good knowledge of the trade. Yet this is often wanting. The grain trade is the easiest of all trades for a man to venture upon. If he has a little money he can open an office anywhere and announce himself a buyer of wheat. If in the country, farmers will certainly come to him and sell for cash. If in a city he can go on Change like any other man, or employ a broker to do it, buying and selling to his heart's content, as long as he has money to put up a margin. He needs no warehouse, no store, or factory, or water power, or, in fact, anything whatever such as men need in other lines of business.

This facility is the special danger of the business; and experience proves that when a man enters upon it in this style he will, before long, be ruined. The *temperament* of the borrower is a matter to be considered. The grain trade is a dangerous one to a man of sanguine temperament. A man of this sort who has borrowed, let us say, \$10,000, from a bank, may, instead of buying that amount of wheat, be drawn into putting up the money as a margin for his share in some deal or "corner." This has happened, as will be seen in a subsequent chapter. The risk of \$10,000 worth of wheat he could legitimately carry; but the risk of ten or twenty times as much would plunge him far out of his depth.

Even if he avoids speculation, a sanguine man is apt to persist in holding for a rise when he ought to sell, and pay off his advances. To a banker's remonstrances, such a man always has a plausible theory, which

to him is a demonstration, why prices must inevitably advance. He therefore holds on until a loss is incurred sufficient to ruin him. An example of this is also given.

It may indeed be laid down as an axiom that none but a cautious man is fit for the grain trade. He should also be a man of moderate ideas, and willing to sell when a sound profit can be made. One of the few survivors of the heavy grain dealers of former years, in this country, has attributed his being able to stand while others were falling to the fact he was always willing for *some other person* to take the *last cent of profit*.

Another important point, but one often lost sight of, is that a grain merchant needs to have a certain line of *customers*; exactly as a dry goods merchant has. The man who buys grain in the market for all the world in general, so to speak, without any idea who is going to buy *from him*, is one of those whose mercantile course is generally short. Such buying does not deserve the name of trade. It is simply speculation. All successful grain merchants buy with a definite purpose in view. They have a connection, at home or abroad. They know that certain varieties are wanted by certain people, or in certain markets. Commonly, or frequently, they have orders from millers or distant merchants. Millers who are perfectly good, but whose operations are not large enough to go into a wide market themselves. These are legitimate customers. So are the merchants of foreign cities like Liverpool, London, Glasgow or Antwerp, who maintain a constant correspondence with Canada indicating their particular wants, and not seldom making firm offers to buy. These are all legitimate forms of outlet to a grain merchant on this side the Atlantic. But the man who buys without any specific purpose, and sends his stock to a foreign market on consignment, trusting to the mere chances of the market, and having no idea who will be the real buyer of his stock, is pursuing a road which sooner or later leads to ruin. Of this also a conspicuous example is given in a subsequent chapter.

LOANS ON WAREHOUSE RECEIPTS.

The amount of a reasonable credit to a grain merchant has already been discussed. It remains now to consider the important question of *Security*.

Except for such moderate amounts as may be advanced to the grain dealer of a small village—generally the storekeeper—the time when personal guarantors or endorsers were commonly offered has long passed by. The amounts are too large for such a form of security to be taken. But as there was necessity for the trade to be carried on, and an almost universal necessity for bank advances to do it, special forms of legislation were devised by which the grain itself could be pledged as security. The ordinary chattel mortgage was seen to be ineffectual, as too slow in operation, and too formal in character for so quick-moving a trade. A special style of pledge was therefore legalized, giving the same rights and powers as a mortgage, yet of so simple a character that men of business could

use it without the intervention of a lawyer. This special style of pledge was a *warehouse receipt*, and was so framed as to give the bank advancing upon it, in theory at least, the same power over the commodity as if he had it locked up in a warehouse of his own, always supposing the document to be *genuine*.

The idea of such security has been developed as circumstances arose by amending and enlarging enactments, some of them anything but reasonable, but in its original and natural form the document was an acknowledgment by the keeper of a warehouse that he had so many bushels of grain in his possession, which he would deliver to the owner when called for, or to his order. Such receipts were natural as between the owner of grain and the owner of the warehouse, and were in use long before there was any special legislation about them. The legislation was to enable the owner of grain to make a legal *transfer* to a bank, not of the document merely, but of title to the grain itself, so that a banker would become as much the owner of the grain as if he had bought it; with, however, two important limitations. The banker was debarred from selling the property without giving ample notice and could of course only sell what would cover his advance. Both were most reasonable. But, on the other hand, the banker's right to the grain, after making an advance upon it, was made absolute as against the claim of any other creditor, even of the party who had sold the grain, in case he had not been paid for it. This provision was absolutely necessary to the safety of loans made on the security of such property, and the whole trading community have acquiesced in them as being for their advantage. For they well know that the more perfect the security, the more easy it is to obtain advances on it, and, other things being equal, the more moderate the rate of interest.

The law contained another provision of a perfectly equitable nature, viz., that the document could only carry such powers when it had been lodged at the time the advance was made. It was seen to be unreasonable that a man should be able to pledge grain to a banker as security for an old debt, and that such banker should have a preference even over an unpaid vendor.⁴⁹ The law intended that the loan secured by the pledge should always be connected with the pledge itself.

But as time went on, and circumstances transpired, two amendments were made. The most important of these was that a man might pledge grain (and other specified agricultural products) *when stored in his own warehouse*; and that this pledge, when properly transferred, should give a banker the same rights as the receipt of a warehouse keeper would give. This was to meet the case of grain buyers in towns and villages, where no public warehouses exist, and whose purchases were therefore stored in warehouses or sheds of their own. It had reference also to the dealers in

⁴⁹ There is, however, nothing to prevent a borrower from giving a warehouse receipt to a bank as security for an antecedent debt if he pleases. But in that case the document will give the bank no right to hold the grain as against other creditors. The banker can only take the receipt for what it is worth.

other agricultural products, such as cheese and pork, who, even in large cities, almost universally store their goods in warehouses which they either own or lease. The other amendment was intended to obviate the difficulty experienced by dealers of small capital in complying with the clause that a warehouse receipt to be effectual must be lodged at the time of the advance. The dealer in this case must have bought and warehoused the grain before getting an advance upon it. But many dealers had not capital enough to do this, or had their capital in other forms than money. They required money at the very outset, especially when deliveries were active and heavy. Formerly such men would get these preliminary advances on the security of an endorser; but as this became necessarily difficult, the law was amended so as to allow a warehouse receipt to be a valid security even if lodged after the advance was made. But only with the proviso *that the borrower must, at the time of getting the advance, have given a written promise to lodge the warehouse receipt in question.* The law thus carried out its original intention to make a distinct connection between the advance and the security.

These amendments were all intended to facilitate borrowing by grain dealers (and dealers in other products of the farm) by enlarging the power to create warehouse receipts and use them as security. But bankers have long ago found out that though the amendments enlarged the powers of borrower and lender, they were far from enlarging the security in the same proportion.

For the difference in the security afforded by a receipt given by a warehouseman for property stored with him by another, and the pledge of a man who has stored goods in his own warehouse is almost inconceivable. In the one case, the banker has the written assurance of a perfectly independent party, that the grain exists, that he has got it for safe keeping, and that he will not part with it except on the return of the document. In the other case, there is no independent person to give the assurance. But this is the feature that gives its peculiar value to such a document. Take this away and the banker has absolutely nothing but the honor of the borrower to fall back upon, guarded of course by the same penalties as are applicable to the man who holds the property of another.

There is as much difference, therefore, in point of real security between an independent warehouse receipt and a man's own pledge, as there is between a man's own promissory note, and a good trade bill. Yet such pledges have their value. If the grain exists, a pledge will hold it against creditors; though it is always in the owner's power to remove it. And as to whether the pledged grain exists, there is the point that to write out a pledge for grain that does not exist is so deliberate a fraud that it is perhaps as rare as forgery.

The same lack of real security (though there is an appearance of it) is found in the taking of a written promise to lodge a warehouse receipt. The only value it has is, that, if when a warehouse receipt comes to be

pledged, that receipt will hold the grain although the advance was not made simultaneously with its delivery.

MEMORANDA ON WAREHOUSE RECEIPTS--BEING EXTRACTS FROM AN ADDRESS ON OWN RECEIPTS AND PLEDGES, TO THE STOCKHOLDERS OF THE MERCHANTS' BANK OF CANADA.

"As the productions of the country became more and more diversified, it was important to grant facilities for enabling banks to lend money to purchase them.

So from time to time, the scope of the act, *i. e.*, The Warehouse Act, was enlarged. And the intention of the Legislature in these successive enlargements is clearly shown by the title of one of the acts. It was called 'an act granting additional facilities in commercial transactions,' a very proper title, too.

So when hogs became an important farm product, pork was included; then hides and wool, then, as maltsters and distillers were large purchasers of farm products, maltsters and distillers were included. Finally, the matter was summed up in general terms of the products of agriculture, the forest, the mine, the sea, lakes and rivers, together with live and dead stock, in addition to which manufacturers were allowed to borrow on pledge of goods of their own manufacture, or raw material therefor.

Down to the very last revision of the Warehousing Act, the great object was kept in view of affording facilities for obtaining money on goods, wares and merchandise; without which the true value of all our products would never be obtained, and the wheels of commerce and industry stand still.

The men who sat on the various Parliamentary committees on this subject were nearly all men of business, who had a practical acquaintance with the needs of the country. They knew the vital importance of affording banking facilities to the dealers in the country's products, and from time to time, as the act was reconsidered, they kept this object steadily in view. Yet they showed their wisdom in the safeguards with which they surrounded the business, and particularly with regard to the right of an unpaid vendor. And to show how equitably the matter is worked, though transactions of this kind have amounted to millions every year, and to hundreds of millions in all, the claims that have been made by unpaid vendors have amounted to an infinitesimal fraction.

But now a mode of looking at this class of business has arisen (through decisions of judges) which will, if carried on, go largely to defeat the object intended by the Legislature. This is founded on what I must consider to be an extraordinary misconception. It has been asserted in various quarters that the general principle of legislation is that banks shall not make advances on goods, wares and merchandise, and that the cases in which it can be done must be taken as exceptions to a general rule. This idea is not only contrary to the fundamental rules of all banking, but to the spirit and intention of all the foregoing legisla-

tion. To legislate that banks shall not make advances on goods, wares and merchandise as a general rule, would be equivalent to a legislation that a saw miller shall not manufacture lumber as a rule, or that a dry goods merchant shall not, as a rule, sell cotton, or that a farmer, as a rule, shall not grow wheat.

The very essence of the business of a banker is to advance on goods, wares and merchandise, either in the shape of discounting bills representing goods sold, or making loans to enable goods to be purchased or held. And the whole object of the Warehouse Receipt legislation is to enable such advances to be got at the cheapest rate by basing them on actual merchandise. The restrictive clause of the Act is, that advances on goods shall not be made except as provided by the Act. But the Act itself opens the door to a wide enough range of transactions, and the limitation plainly means that banks shall not lend on goods as a pawnbroker does, or keep warehouses to store them in as the Bank of Germany does, and also that a storekeeper or a dry goods merchant who buys goods on credit shall not have the power of pledging them for bank advances. It is true that the Act gives the lender of the money, when he advances on goods, a right to them, even over an unpaid vendor—a very strong provision, and showing how strong was the desire of Parliament to facilitate loans on merchandise. But it is safeguarded by restricting the operation of the Act to cases in which, as a rule, there *is no* unpaid vendor. Any other limitation, I venture to think, should always be interpreted reasonably and liberally, and with due regard to the great object intended to be accomplished by the Legislature, and to the vast importance of such advances to the country at large in its increasing development.

An Act of Parliament, as we know, may be variously interpreted; in fact, it is impossible to frame clauses that are not susceptible of divers interpretations. If such interpretations are of a nature to hamper and embarrass banks in assisting merchants to handle the products of the country, they cannot be for the good of the community, but very much to its detriment."

CHAPTER XV.

LOANS TO DEALERS IN GRAIN AND OTHER AGRICULTURAL PRODUCE.—Continued.

DIFFERENCE IN WAREHOUSE RECEIPTS—CHEESE AND BUTTER—ADVANCES FOR DEALING IN CATTLE—PORK—HIDES—WOOL AND HAY.

PURSUING the subject of independent warehouse receipts, it may be noted that they are *by no means all equal in quality*. If given by a private individual, a banker needs to make enquiry as to his reliability before advancing money on his receipts, for sometimes the relations between a warehouseman or wharfinger and the borrower of money are closer than is desirable. Without any intention to defraud, a warehouseman has sometimes been induced to give a receipt for goods before he has obtained them, trusting to his customer sending them on. There is a particular temptation to do this in these days of exceptionally heavy deliveries, which are common in the grain trade. Such cases are, of course, rare, and every warehouse knows it to be a dangerous business.

The receipts of a railway corporation or a city warehousing company are the most reliable a banker can have. This is especially the case when a banker is making advances in the grain centres of the United States. In Chicago and Minneapolis the system by which warehouse receipts are registered and checked renders them exceptionally valuable as a security. Error or fraud are practically impossible in connection with them.⁴¹

When a borrower can present documents of this kind, insurance in all cases being effected in favor of the bank, advances may be safely made to a far greater extent than when they are secured by guarantee or by a dealer's own pledge. In all such cases a margin is required and given, and if the margin is well looked after, loss is practically impossible, so long as the grain is in the warehouse.

There is, however, a danger which arises out of the necessity for parting with the receipt when the time comes for grain to be delivered. It is practically impossible for the ordinary dealer to pay for the grain before it is delivered, yet without possession of the receipt the warehouse company will not allow it to be moved. The bank cannot attend to this matter of shipment; none but the owner can do it, but to do it he must

⁴¹ But Canadian bankers who have, during some years, advanced money to grain merchants in Duluth and Minneapolis have learned by experience how much difference in quality there is between receipts technically known as terminals; that is, those given by the great warehouses at the terminal of a railroad, and those given by small country elevators situated along the line. The former have invariably proved satisfactory. The grain never failed of delivery. But the latter were not seldom the occasion of long correspondence, disputes, lawsuits, and injunctions—which lasted for months before final settlement was reached.

have the warehouse receipt in his possession. The necessity of the case has given rise to the standing custom in such cases of delivering the document to the borrower, he giving the banker a formal pledge by which the shipper is constituted a BAILEE of the property for the purpose of shipment or sale, and under which he undertakes to account for the proceeds if sold, or to bring back a bill of exchange if shipped. A breach of this engagement renders the party liable to *prosecution for fraud*. In an active shipping season the amount of grain *in transit* in this shape, owned by a single firm at a particular time, is often very large, involving large sums of money for which the banker during a short time has no security but the borrower's pledges.

The amount of these in Chicago during any grain season runs up into millions, yet it is a fact that failures to meet the engagement of a bailee have scarcely ever been known, even in such a vortex of speculation as Chicago. The experience of other grain centres has not been materially different. Yet it is natural for bankers who have large grain accounts, involving the necessity of temporarily parting with security, to feel anxiety when many sales are being effected at the same time, and large amounts are afloat on the mere honor of borrowers. These are times that press strenuously on a banker's attention the importance of having *honorable men* as borrowers, even if at the outset all transactions rest on undoubted security.

When the borrower brings a Bill of lading, or Railway receipt, for the goods he is shipping, he almost invariably draws a draft against them. The bill of lading being attached to the draft, gives to the banker discounting it the same rights and powers over the property that the warehouse receipt does. And practically most of the risk of the transaction is then at an end, except in certain cases that arise in foreign ports. These matters, however, are dealt with under the head of foreign bills.

Owing to the closing up of navigation, on the lakes and canals of Canada and the Northern States, it is sometimes necessary to hold grain for many months in warehouse. To send it by rail would be altogether too costly. It would destroy the profit of the dealer, unless there had been a large advance in the price. These long periods of holding grain are not without anxiety to bankers who have made advances on it, for the holder may be at the mercy of the market for a long period, during which neither he, nor any other person, can move the grain. In former days great losses have resulted to merchants from this circumstance, and not a few have been ruined altogether with considerable loss to their bankers. Now, however, the system of dealing in "*futures*" and "*options*" has become so perfected that it is possible for a holder of grain, who is compelled to carry it for a considerable season, to guard himself from loss. And thus the very speculation in grain, which, under one aspect, is in a high degree baneful, becomes in another aspect the means of guarding an ordinary trader from risk. Of course, such contracts for future delivery are liable to fail in execution, in case misfortune overtakes one of the

contracting parties, or, in case he becomes involved in the vast operations of one of those speculative "corners" that loom up now and then in the trade. But the risk of this is small compared with the risk of long winter holding.

On the whole, and to sum up the matter in a few words, the banker, in carrying on the account of a grain merchant, will need first to be thoroughly satisfied as to the honorable character of his customer. A failure here is sure to end in trouble sooner or later. But equally necessary it is for the dealer to be a prudent and cautious man; for the grain trade is—of all others—the most dangerous to a man of sanguine temperament. With customers of honor and prudence, whose capital is proportional to the amount of business they do, and who understand the trade, both as to the article itself and the markets for buying and selling, a banker may do business from season to season with no greater liability to loss than would be found in the average of occupations. But he certainly does need to be on the watch for any *symptoms* of a speculative spirit in his customer, and especially of his taking money lent to him for the purchase of grain, and using it as a margin for speculative operations.

The TRADE BILLS drawn by grain dealers on correspondents are dealt with in subsequent pages.

It is now necessary for other branches of the trade in farm products to be brought under review, and the first to be taken up will be:

THE CHEESE AND BUTTER TRADE.

This, as is well known, has attained very large dimensions in Canada during the last quarter of a century, and the accounts of merchants in it are amongst the largest of those carried on by Canadian bankers. Yet the trade in cheese and butter is a wholly different one from the trade in grain. It is not so easy to enter upon; it demands far more special knowledge of the article, and also more intimate acquaintance with the markets and merchants of foreign countries. There is no speculative centre like Chicago, for this trade, and comparatively little of that buying and selling in which the article is never handled at all. And though the prices fluctuate, they seldom fluctuate from anything but natural causes, such as the abundance or scarcity of grass and fodder, or the conditions of the markets of Great Britain. The trade is not in many hands; and most of those who carry it on are men of knowledge, experience and good connections abroad. Moreover, the small dealers in country places are seldom merchants on their own account, but act as agents for large dealers in cities. The transactions of banks through their country branches, with this class of men, are numerous, and involve little risk, owing to the fact that they are almost always in the shape of drafts from city dealers duly authorized. A large part of the cheese and butter exported from Canada is purchased at first hand from farmers, creameries and cheese factories by this useful class of men. But their dealings with a banker, though numerous, and large in the aggregate, are matters which practically involve no risk. The real risk begins with advances to the cheese merchant

of a city. These advances, as in the case of grain, and other analogous trades, are almost invariably arranged beforehand for a whole season. In considering them a banker has to give unusual weight to the character of the borrower for honesty and reliability, seeing that it has come about, by force of circumstances, that cheese and butter are almost invariably stored in warehouses belonging to, or leased by, the merchant.

The ordinary warehouse, or elevator, has not the appliances necessary in this climate for the safe-keeping of cheese and butter, as they are specially liable to deterioration under changes of temperature; from all which it follows that much more of the security tendered in this trade is in the shape of a merchant's own receipts. When, therefore, an application is made for advances to carry on a season's trade in these articles, the banker needs, above all things, to be sure of the *men* he is dealing with. If the applicants be a firm, with one or more partners, the character of every partner is a matter for weighty consideration. If during the currency of advances an additional partner is taken in, that also should be a matter for consideration, lest an unsound element be allowed to creep in, and damage the stability of the firm.⁴²

The matter of knowledge and experience in the trade no banker will lose sight of in considering an application; but the men who propose to obtain advances from a bank to buy cheese and butter are seldom deficient in this respect, either as to the article or the markets. But a banker will require to be particularly well satisfied as to the applicant's capital; for it may be taken as a rule, in this line of business, that the capital, in proportion to the advances asked, should be large. The fluctuations in prices are sometimes rapid and very considerable.⁴³ The article is required at times to be held in large quantities and for long periods, at the risk of the market, and there are not many facilities for rapid selling in a falling market, whereby men may escape loss. There are, too, more dangers from the fluctuations of the seasons, and the suitability, or otherwise, of the article to the market it is bound for.

All these considerations naturally lead up, not only to the requirement of a large capital in the borrower, but that his capital should be in some available shape, in case of a bad season, unfavorable markets and loss to the buyers.

⁴² Bankers are often taught, by severe experience, how dangerous are the risks involved in the change of the personnel of firms. A father may build up, by years of prudence and honesty, a lucrative and prosperous business; sons grow up who, being taken into partnership, may destroy the work of a lifetime by a few years of incapacity and, possibly, dishonesty. Yet the name of the firm may be the same as before, and the traditions of honorable dealing will survive, although the foundation for it has disappeared.

⁴³ These fluctuations are apt to appear less than they are, owing to the quotations for cheese and butter, even in the wholesale trade, being at so much per pound. The rise or fall of a cent per pound sounds like a very small affair, yet it may amount to as much as ten to fifteen per cent., according to the price of the article. Thus, if a merchant is carrying a heavy winter's stock (and such stocks are sometimes carried of a value of two or three hundred thousand dollars), this seemingly trifling change of a cent per pound may make a difference of twenty or thirty thousand dollars in its value. The changes in values in this trade are, in truth, heavier than in the grain trade, and need more constant watching.

This trade is one giving rise to large amounts of exports, especially to Great Britain. The consumption of cheese is much larger in the agricultural districts of both England and Scotland than in Canada or the United States.

The *cheese* trade in Great Britain is in many respects as different from the *grain* trade as it is on this side the Atlantic. It is not so rapid, so changeable or so speculative. The article, moreover, is itself a finished product, not requiring a manufacturing process to make it available. It is, therefore, commonly held longer in stock, and as it cannot be held in ordinary warehouses, it comes about that merchants in Great Britain must more commonly ask for bills of lading to be given up on acceptance, in order to remove the stock to their own warehouses. To this, of course, the banker must consent if it is to be done at all; but bankers on this side are usually ready to meet the views of their customers in this matter, as the persons in the trade on both sides the Atlantic are, as a rule, men of capital and standing, and the bill will have two presumably good names on it, even when the bill of lading has been given up. So great is the confidence between one merchant and another in this trade, that it has not been uncommon for parties in England to accept bills drawn against goods *warehoused on this side*. Experience, however, has proved this practice to be exposed to peculiar risks, which may render it dangerous for the foreign merchant, and unsatisfactory for the Canadian banker.

THE CATTLE TRADE.

Passing from the trade in dairy products to the trade in the animals themselves, we enter upon another set of considerations altogether.

Advances for the purpose of dealing in cattle or feeding them commonly begin with loans to small dealers in country districts who gather together small lots and sell them to large dealers or distillers. These advances are usually of moderate amount, and such short time that they can be reasonably secured by an endorsement or guarantee. Such small dealers, indeed, are sometimes ambitious to become exporters, but bankers are usually chary of encouraging such operations. Small dealers, as a rule, have neither the knowledge of foreign markets, nor the experience, nor the capital necessary to do this successfully. Their proper business is to pass on the animals to men of greater weight.

Of these some of the most prominent are Distillers. The advances to distillers for the purpose of feeding cattle, in some cases, are on a large scale, and continued for a considerable time. They are commonly secured by the pledge of the distiller, which pledges are of a much safer character than any others handled by bankers; the reason being that the animals, having once entered the distillery, are never removed until finally shipped away. An inspection of them, moreover, is perfectly easy.

When the process of fattening is completed, and the time has arrived for shipping, they are generally sent in a live state across the Atlantic. The trade of shipping live cattle across the Atlantic is a development

of recent years; and until it was better understood and more perfect shipping facilities were devised for it, it was attended with heavy casualties and losses. This trade is not one of those that are easy to enter upon. None but men who are familiar with cattle ever think of meddling with it. It has been proved to require not only large capital and thorough knowledge of animals; but first-rate arrangements for handling cattle in Great Britain. Naturally, it is a far more difficult business to handle live animals than grain, cheese, or pork. They are exposed to far more casualties both from cold and heat. The risks of land transport are considerable, but the risk of ocean transport is immensely greater. But perhaps the greatest risk of all is in the hot days of summer before steamers are well out at sea. The risks of this trade are considerably augmented by the fact that the cattle cannot be held in an English port, or sent into the interior. They must be sold and slaughtered at once, be the market bad or good, the price high or low. It is evidently a trade therefore for men of large means, and for no others.

With regard to security for the loans of bankers, the pledge of the dealer in the case of live animals herded or yarded is of the weakest quality, theoretically, for it is obviously more easy to take cattle away than to move any other commodity. The case is entirely different with the distiller, for the cattle in his byres are a part of the very machinery of his business. He could not take them away while feeding without suffering heavy damage. But the cattle dealer can make away with his property without the slightest difficulty if he chooses. The animals can walk off by themselves, and need neither trunks, wagons nor carts to transport them.

Yet this cattle trade is one of the most important that Canada has; and with the development of the Northwest, with its great stretches of ranches, is becoming increasingly so. And in the hands of men with adequate capital and knowledge, it may be conducted as safely as any other branch of export business. But woe to the men, or firms, that plunge into it without these requisites, or to the unfortunate banker who is beguiled into lending them money. And one consideration will be found by bankers to be fundamental, never to make advances or buy bills against cattle *shipped in winter*.

PORK AND PROVISION TRADE.

In this trade the animal itself is never exported. But Canada carries on a very large business in its products, and some of them, namely, ham and bacon, are figuring heavily in our list of exports. The trade is different from that in grain or cheese in this respect, that the portions of the slaughtered animals undergo a change before being sold. This can hardly be called a *manufacturing* process, being merely salting and curing, for which reason it is not dealt with under the head of loans to manufacturers. Yet the *packing* of pork (for the operation goes by this name) is a large and important industry, carried on in costly establishments, full of a valuable plant, requiring large capital to carry them on.

At the very outset the question arises, when considering loans for this

business, at what point bank advances may be reasonably asked for, and the answer must, of course, be given, as in analogous cases, that the factory should be completed and paid for, before a banker is approached. This circumstance will be in itself a guarantee of the borrower possessing considerable capital. But to be a satisfactory customer to a bank he certainly ought to have more than this; viz., as much more as would enable him to provide against the losses of an unfavorable season without mortgaging his property.

In this trade security offered to a banker is almost invariably a pledge of the newly-slaughtered animal: the law allowing the pledge to subsist during the process of converting it into pork, ham, or bacon, and attaching to the finished product.

Again must be emphasized the importance of a continuously good record to every member of a borrowing firm, both at the time, and as it may be subsequently changed by the entrance of other partners. It is far more difficult for a banker to judge of the value of his security in this business than in any of the foregoing. And there are hindrances in the trade itself.

Pork packing is a different trade from the curing of hams and bacon. Barrelled pork is essentially for the home market, being the staple food of lumber camps. In centres like Chicago, barrelled pork is often speculated in; "corners" are made in it, and the fluctuations in its price are heavy. There is the same reason as in the grain trade for a banker to beware of his advances being used to put up a margin. No advances in this business can be considered safe unless to men of solid temperament and judgment, whose capital is large in proportion to their business—and who understand well both the article, the process, and the markets.

The export of hams and bacon to Great Britain has now attained large dimensions, and is subject to the same conditions as pertain to other branches of the export trade. It requires good connections on the other side of the Atlantic; it should be conducted on the principle of purchase and sale, and not of consigning; for it cannot be too often repeated that consigning is the road to ruin in this, as in every other branch of the export business.

As in other branches of production, the maker of hams and bacon will find it highly conducive to profit to establish a *name* for his article, as Armour & Co. of Chicago have done.

The special danger to bankers, in this line of business, is that the packer's building and plant may not be kept abreast of modern improvements; also that changes in the firm may deteriorate it, new members not having the same ability as the old, competent and able fathers being succeeded by incompetent sons. (The latter, however, is not peculiar to the pork trade.)

HIDES AND WOOL.

The last branch of agricultural products to be noted is the trade in hides and wool, these generally going *together*. This trade, like the

foregoing, has its peculiarities, and special sources of risk and danger. Hides and wool are articles that only experts can deal in, for no outsider can possibly tell the value of a given quantity of either of them. There are in this trade, as in the others, small dealers and large—the men who gather up small lots in the country, and the men who have large wholesale dealings in the city. And, as in other branches of trade, the small dealer is sometimes too ambitious for his means and experience, and too desirous to enter upon operations that he has neither the capital nor the ability to carry on.

Bankers cannot do a greater service to a man of this class than to refuse to lend him sums of money large enough for wholesale operations; for it is, in truth, often learned at a bitter cost, that many a man in trade has been ruined by having too free a use of money, loaned him by a compliant banker.

The trade in hides and wool provides raw material for two important lines of manufacture; viz., woolen mills and tanneries. In both of these much of the raw material is produced in foreign countries, and the large merchants in wool and hides become *importers* from Australia and South Africa. To carry on these operations the banker is asked to issue to his customer letters of credit authorizing their correspondents to draw upon a bank in London, for the value of the wool or hides shipped, attaching bills of lading and policies of insurance thereto. The issuing of such letters of credit is a special branch of a banker's business both in Canada and in the United States and is treated of subsequently. Its special advantages and risks are, there completely opened up; meanwhile, it is sufficient to say, that no small dealer should ever be encouraged to enter upon this line of operations. For the losses of a single unfavorable season might sweep away all he had.

Merchants in hides and wool, in large cities, applying for advances, generally offer, as in other cases, warehouse receipts as security. And here again they will desire that the goods shall be stored in their own warehouses, for the reason that goods require to be *handled* during the progress of warehousing. This may be conceived of as an element of risk, and so it is. But it may be taken as a general rule, that unless a banker can trust his customer so far, he ought not to advance him anything at all on his own pledge.

As the articles dealt in by men in this trade are the raw material of manufacturers, they come under that general law, applicable to all such cases, that raw materials should not be sold *on credit*. Every manufacturer should have capital (or, at any rate, credit) enough to enable him to pay cash for his raw material. And this is almost universally the case.

Canadian dealers export large quantities of home-grown wool to manufacturers in the United States. They also sell to such manufacturers considerable quantities of wools imported from abroad under letters of credit. These are entered in American ports. But it is a dangerous experiment to give time to manufacturers, on such goods. Though they may be re-

ported in high credit and possessed of large capital, *the very fact of their asking credit should be the reason for refusing it.*

HAY.

The growing of hay, in some districts of Canada, forms an important part of a farmer's operations. But the hay crop, though of very great value, seldom calls for bank advances to any extent. Farmers use much of it themselves. A good part of the rest is handled by small dealers scattered through the country districts. The article is too bulky to be gathered into warehouses; but considerable quantities are sent over the border, into the United States. Banking transactions arising from these are almost universally in the shape of sight drafts, with bill of lading attached. Occasionally, however, when the hay crop is a bad one in England, owing either to rain or drought, a demand sets in from that quarter to Canadian dealers. In such circumstances, a large and active trade has been done. It is a trade that involves unusual trouble in handling, and merchants in large centres do not care to meddle with it. But exporting, as has been said already, is a business by itself; and country dealers, in venturing upon the export of hay, have sometimes brought infinite trouble upon themselves, their correspondents in Great Britain, and also upon London bankers. Although the difference in price paid to the Canadian farmer and the price as quoted in England is unusually great, and seems to give opportunities for large profits, the multiplied cost of freight by land and water, added to the cost of warehousing, wharfage, demurrage and commissions in England, generally swallows up this difference. Sometimes, as a matter of fact, they do much more, and involve the Canadian shipper, and sometimes his banker, in heavy losses.

It has been known that in an active season enormous quantities of baled hay have been lying about on the wharves and docks of England for weeks together. The risk of this, in that climate, may be imagined. It has also happened that canal boats loaded with Canadian hay have been held under demurrage for many consecutive weeks, at enormous cost, owing to the refusal of purchasers to receive the goods and accept bills drawn against them. In that case it has happened that scores of bills have lain unaccepted in the London banks, to whom they were sent for collection; and that the hay, when brought to forced sale, did not realize a half, or even a quarter, of what was drawn against it.

It may be concluded, therefore, that no Canadian banker will in future make advances to any country dealer for the purpose of buying hay for export. And if bills drawn against hay shipped across the Atlantic are offered him, he will prefer to make a moderate advance, and send them on for collection.

Of all the various descriptions of advances referred to in this chapter, there is one thing to be said that admits of no exception; viz., that they should be paid off at the end of every season. On no account should one season's advances ever run into another.

CHAPTER XVI.

LOANS TO MANUFACTURERS AND IMPORTERS.

LOANS TO MANUFACTURERS OF TIMBER, AND SAW MILLERS—LOANS TO FLOUR MILLERS—LOANS TO COTTON AND WOOLEN MANUFACTURERS AND WHOLESALE IMPORTERS.

ALTHOUGH the operation of cutting down the forests of Canada and turning the fallen trees into timber by hewing, or into lumber by sawing, is not generally called manufacturing, it will now be treated as such, inasmuch as both are carried on with plant, machinery and tools—the last especially. The operations of the timber and lumber men of Canada have been very different from those of the settlers who cleared the forest for the purpose of creating farms. For in the latter case the trees were absolutely destroyed; in the former, they were preserved as the raw material of manufacturing operations. No lines of business have called for such heavy advances from banks, and none have given rise to such large amounts of inland and foreign bills of exchange as those now to be considered.

These two divisions of manufacture are so distinct from one another that they require separate treatment; the only point in which they coincide being that both require large tracts of timbered land, sometimes extending over thousands of square miles, from which to draw the raw material for their operations.

The first in order that will be taken up is the manufacture of square timber. In this trade, as in some previously mentioned, there are found in co-operation two classes of men, the one consisting of small jobbers, and the other of large operators. The first generally confine their labors to a small piece of forest territory, employing a few hewers and choppers on their own account; having in view the delivery of the product to some great firm at a central point, and working in subordination to it. These jobbers are often half farmers and half woodsmen; farming in the summer, and working in the woods in the winter; good judges of trees by long experience, and generally men of intelligence and reliability, not having, as a rule, much capital of their own, but being generally safe borrowers. Advances to these men are of moderate amount; for no banker would listen to an application from a jobber for such an amount as would enable him to send the product to a distant market, and compete with the larger men of the trade.

Such jobbers carry on work during the winter; delivering their product and getting paid for it in the spring. Then they pay off advances.

Sometimes, however, the banking operation is different. The large operator may have a sufficient capital to supply these men with money as

the work goes on, and also to supply them with the provisions needed in their camps in the woods. Or he may have credit enough with the bank to enable him to borrow money for the purpose.

In this case he will enable the jobber to obtain money from the bank by becoming guarantor for his advances. These advances are of course paid by the large operator when the lots of timber made by the jobber are delivered. But a large operator, in addition to the supplies of timber that these jobbers may procure for him, will generally employ numbers of men, scattered over a wide extent of territory, to chop, hew, and haul the trees on his own account. The operations by which these scattered lots of timber are floated down subsidiary streams into a main river like the Ottawa, and then down the St. Lawrence into the coves of Quebec, the great emporium of the trade, are well known in Canada. It must, however, be evident that a large amount of money requires to be disbursed before the timber can finally be placed on board ship, and foreign bills of exchange drawn against it. This money for the most part, from the very beginning, has been obtained by advances from banks.

An unusually large capital is required to carry on these operations, for the timber growing on these tracts of territory must be owned by the merchant before a tree can be cut down. The land on which the timber grows is rarely valuable for settlement. And the timber merchant does not care for the freehold of the land at all. What he wants is the trees that are growing upon it.

A system has therefore grown up by which the right of cutting trees over defined lines of territory is sold to operators under the name of limits. These "limits" are simply licenses to cut, renewable on payment of ground rent year by year. Yet so well established has the system of renewal become that they are highly valuable property, and constitute in many cases a large part of the capital of many wealthy firms.

Before applying to a banker for advances for a season's operations, it is usual for firms to own their limits absolutely, and to have paid for improvements on them, such as dams, slides and water-ways.

The operations of a woodsman require to be carried on for nearly twelve months before the timber is ready for market. Advances to such firms are therefore necessarily as long, and once entered upon they cannot be stopped. To stop advances when the whole floating assets of a timber firm are in the shape of half-hewn trees lying scattered over hundreds of miles of territory, would be disastrous on both sides. Bankers, therefore, are in the habit of considering the situation well before consenting to allow such advances to begin. And this consideration embraces not only the points common to all lines of business, such as capital, experience, and reliability, together with the security offered, but whether the bank can afford to carry such large loans for so long a period at all.

But when a banker is satisfied that he can afford to make advances for so long a period, he will consider whether the amount desired is reasonable in proportion to his customer's capital, and the extent of the year's

operations. Every timber maker lays out his plans a year beforehand, to get out, as it is called, a certain quantity. Upon this is based the number of men and horses sent into the woods, and the supplies of food and fodder provided. The number of sleighs, wagons, canoes and other requisites needs to be carefully calculated; in fact, the winter's operations of a timber-maker in the woods are of the nature of an expedition. For once dispersed amongst their camps in the forest, there they must remain until the spring.

The timber-maker will inform his banker what he intends to do; and the banker will doubtless have learned enough to estimate how much money will be required to carry him through. It may be taken for granted that the borrower understands the trade, for no man could carry it on for a month unless he did.

Character and reliability will be considered as usual. But in the matter of capital wide differences will be found. Some of the wealthiest firms that Canada has known have been able to carry on the operations of a whole season involving immense disbursements without borrowing at all.

But at the other end of the scale are men of capacity and character who have barely capital enough to own their limits. This, however, is a minimum requirement. To make advances to a timber-maker while someone else has a claim on his limits is a very rash proceeding, and has led, during bad seasons, to heavy bank losses. A banker, under all circumstances, will aim to be the first claimant; never the second.

Limits can be assigned to a bank as security, as they are not real estate. They generally are so assigned. And very good security they generally prove, if valued with reasonable care.

RISKS TO BE TAKEN INTO ACCOUNT.

But in addition to limits, the pieces of timber themselves can be assigned, and special legislation has been devised for the purpose. They are always stamped with a registered mark, and occasionally a bank will have them marked on its own account. It is, however, almost unheard of that a bank should lose its hold upon the timber, or fail to receive the proceeds when sold. The risks lie in another direction, viz., that the pieces shall stick fast in subordinate streams, or be carried away by floods on the larger ones, both involving the danger that many of them will never be recovered, or that the expense of recovering them will destroy the chance of profit. There is also the risk of a fall in the British market during the long period of work in the woods and of driving to Quebec. A drop in the price has been known of so serious a character as not only to destroy the chance of profit, but the possibility of realizing anything near even the cost of the article. Hence it is that bankers require to be satisfied beforehand of the ability of their customer to bear such reverses.

In this branch of trade there is usually a distinct line of demarcation between the producer and the exporting merchant. The producer rarely

exports his product; in fact, when he does so, the result is not always satisfactory. And the banker has something to say to this also; he has carried the risks of the producer's operations for twelve months, and it is time that they should end. For undoubtedly a new line of risks begins when timber is shipped across the ocean. To whatever market destined, whether to Great Britain, or to the Continent of Europe, or any other market, the trade assumes an entirely new aspect when once the timber is placed on board ship for transport across the sea. Before that is done, the man who has produced it and carried it through all risks of navigation to a seaport has a right to be paid for it, and thus have the means of recomping his banker.

With respect to bills arising out of the export of timber a practice has grown up which is peculiar to this trade. Every timber house in Canada has usually some corresponding house in Great Britain on whom it draws. Sometimes these houses are merchants of large capital in the seaports of Great Britain. Sometimes they are branches of the Canadian house, sometimes they are London bankers. To these correspondents the bills of lading are remitted; but the bills of exchange are drawn without reference to them. When such bills were accepted by a different corresponding house, they could stand on the merits of both drawer and drawee. But when the corresponding house was a branch of the other, the bills stood upon the merit of the drawer alone. In this case, it was for the banker to have thorough and up-to-date information of what the two branches of the house were doing. Casualties in this line of business, however, have not been frequent. Only seldom in a quarter of a century has there occurred a failure on this side the Atlantic, and rarely indeed on the other, unless the English merchant had engaged in speculations foreign to his business.

SAW MILLING.

Though the operations of the timber merchant and saw miller both commence by hewing down the trees of the forest, there is a marked difference in subsequent developments. The squaring of trees in the woods is a simple process, after which they only require transportation to market. But lumber and deals, in addition, need for their production an elaborate manufacturing process, carried on in expensive mills, filled with costly plant and machinery.

But larger and finer trees are required for timber than for the others. There is a difference also in several respects between the manufacture of deals and lumber, the principal being that they are intended for different markets.

Deals are wholly exported to Europe, while lumber is manufactured for the Canadian and United States market. Deals are much finer and more costly articles than lumber, requiring finer logs for the raw material and a more valuable kind of trees. Deals, moreover, are cut in pieces of three inches in thickness, while the standard thickness of lumber is one

inch. Thus it comes about that on a given range of forest territory, the selection is made of the finest trees for timber, of trees of the second quality for deals, and of the third for sawed lumber.

But of all these three there are many varieties, involving great differences in value. Only a practised expert can judge rightly of such differences, and it is largely in the knowledge of what will be the best use to make of certain trees, so as to get the best possible value out of them, that a successful carrying on of the business of a lumberman depends.

With regard to the mill itself, where the operation of manufacturing is carried on, great and irretrievable mistakes have at times been made, occasioning ruin to the operator and loss to his banker.

A mill may be built in the wrong place, as respects water power, convenience of receiving logs, or shipping lumber, or it may be built in too expensive a fashion for the work it has to do, or it may be fitted up with inferior plant and machinery. Hence the importance of a saw miller having a practical knowledge of machinery and also the faculty of using it profitably, as has already been shown. From all these considerations it will be evident that more capital is required in the saw milling business than in that of the making of timber; practically just so much more as is required to build and equip the mill and the adjoining storage grounds. In nearly all other respects the conditions are the same.

MILLS SHOULD NOT BE ENCUMBERED.

Now, when a banker comes to deal with the account of a saw miller it is obvious that the first condition is that the fixed property shall have been paid for, both the mill, and the timber limits. But if an exception may be made in either case, it should certainly not be in favor of the mill. A lumberer whose saw mill is not free from incumbrance is not in a position to ask advances from a bank. Limits are, as a rule, much more salable than saw mills; and, moreover, a bank can take security on them at any time.

But now, supposing this preliminary to be as it should be, the saw miller desiring advances will state the quantity of lumber he is proposing to manufacture for the season. If the trade is brisk, demand strong, and profit good, he may determine to run his mill to its utmost capacity, and work it night and day. If the trade is dull and demand slack, he will no doubt be wise enough to run his machinery moderately. The banker (or his board of directors) will doubtless know sufficient of the conditions of the trade to judge which of the two courses is more prudent, and regulate advances accordingly.

The security taken will probably be the same as in the timber trade; namely, a transfer of the limits and a pledge of the logs and their product.

In this trade, unlike that in timber, the banker requires to look narrowly after insurance. In the square timber trade no insurance is ever required, for the article is never out of the water. But saw mills and lum-

ber are terribly inflammable articles, and in a large concern insurance to the amount of hundreds of thousands may be necessary to safety.

All advances to lumberers and timber-makers should be made gradually, as the season advances, and as more and more money requires to be spent on the article to bring it to a salable condition. If they are asked for otherwise, there is reasonable suspicion that they may be used to pay antecedent debts.

When the lumberman's stock is in a finished condition, a distinction arises between its two varieties, viz., lumber and deals. The saw miller sells his deals for export to Europe. They go, therefore, to an Atlantic seaport, and, as a rule, they are purchased by a merchant of the port. It has been customary for such merchants to give their acceptances in payment to the manufacturer; but, considering the very large sums such acceptances amount to, it has been common for a lien on the property to be held by the seller or his banker until the acceptances were paid.

The manufacturer of sawed lumber, as distinguished from deals, has always found his principal market in the United States. It is here perhaps more than in any other product that the interdependence of the two countries has been manifest. Canada in proportion to her population has always had far more forest area than the adjacent States; hence it came about naturally that the lumber merchants of the latter, from an early period, looked to Canada as a market of supply. In many cases they formed permanent connections with the saw millers of the North, making arrangements, not seldom, to buy the whole product of certain mills at a schedule of prices agreed upon. Bankers therefore who kept the accounts of saw millers, would have the acceptances of such houses offered for discount and naturally became interested in their means and standing. For the discount had to rest on the credit of the parties to the paper, inasmuch as it was impossible for a Canadian banker to maintain a lien upon an article like lumber after it had passed beyond the borders of his own country.

The lumber trade of the Northern States, with a few striking exceptions (one of them hereafter noticed), has for a long period been in the hands of firms of tried character and sufficient means, not to speak of others of large wealth. This class of discounts has been subject to few casualties and has always been looked on with favor. One reason for this is that there is no speculative element in the trade, though it is subject to cycles of good and bad years, generally about five. The changes, however, either in the way of improvement or deterioration, proceed slowly, and there is ample time for operators to prepare for changes, either by curtailment of business or enlargement, as circumstances call for it.

The bad years in the trade are generally extremely trying, involving not only the doing of business without profit, but the carrying it on at a loss for years together.

Yet the business has wonderful recuperative powers. At the end of a cycle of bad years it sometimes appears to be so prostrate as to be incap-

ble of revival. Not only the lumber itself, but all that goes to produce it, seems to have lost its value. Mills and limits, but especially the latter, become such a drug in the market as to become practically worthless. Such times as these try the faith and courage of a banker sorely. But if he is unwise enough to bring a customer's account to a close at such a time, and sell his property at a price which results in a heavy bad debt, he is not unlikely to hear later on that the same property had been resold at a price which would have enabled his customer to pay his debts in full with the addition of several years of interest.

Few bankers in Canada but have known cases of this kind, and some have seen such extraordinary cases as the realizing, after a lapse of years, for one-tenth part of a certain area of timbered lands a greater price than the whole was once in danger of being sacrificed for in a time of depression.

There is one feature of this trade in which it differs from almost every other in Canada, viz., that many Americans have crossed the border at various times and established mills on their own account. Not a few of such have become permanent citizens of the country, transferring to it not only capital, but themselves and all their interests. Some of the largest of the lumber firms now in Canada are of this description; having acquired limits, built mills, and amassed wealth; becoming, it scarce needs be said, most valuable citizens and satisfactory customers to the banks. Natural it was for houses of this description to keep up close connections with lumber merchants in American cities; using them as agents or consignees. Such American houses would, not seldom, accept for the Canadian house in advance of shipment. In that case the banker would be advised of the fact, and use his judgment as to discounting the bills. If he did, he would take care that his own advances should be paid off before they matured, or that the proceeds of the bills should be used to take them up.

The position which has resulted during recent years in the lumber trade from the strife of parties in politics in the United States and in Canada, has had the result of inducing not a few firms in the lumber regions of the States to acquire properties in Canada, and carry on their operations here. As the forests of the Northern States become more and more depleted, this step is likely to become more frequent. All that has been observed with regard to the migration in the earlier years in the trade applies in the fullest measure to this.

The only other variety of banking transactions connected with this trade is in the case of American houses of such wealth and capital that they can carry on the large operations connected with a Canadian branch of their business, without requiring bank advances at all.

In this case all that a Canadian banker will be required to do is to give cash for authorized short date drafts upon the parent firm. But here an observation requires to be made. In cases of this kind it has sometimes occurred that a change of policy, or a change of times, brought

about a different style of dealing with Canadian banks, and that the cashing of sight drafts drifted into the making of permanent advances. An occurrence like this is fully opened up later on.

On the whole the accounts of persons in this trade, while in many respects the most advantageous that a banker can carry on, are, at the same time, such as to require more technical knowledge and more good judgment, more foresight, and, in difficult times, more courage and patience, than any other class of business that may be submitted to him.

ADVANCES TO FLOUR MILLERS.

This branch of manufacture differs from almost every other in the fact that the raw material is of a highly speculative character.

The Produce Exchanges of Chicago, New York, and Montreal, on this side of the Atlantic; and of London, Liverpool, and Glasgow on the other (not to speak of Continental cities), are all the scene of transactions in grain to enormous amounts by persons who never either see or handle the commodity, whose operations have a constant bearing upon prices.

This has already been fully considered under the heading of "Advances to Men in the Grain Trade." What we are now concerned with are the operations of the men who turn the grain into flour, oatmeal, or other manufactured products.

Of these there were formerly a large number scattered over the grain-producing countries of both Canada and the United States, utilizing the numerous water powers to be found therein. Their little establishments in some cases would grow with the growth of the town or district, until they became of sufficient importance, not only to supply the country around them, but some distributing centre, whence it might be shipped across the Atlantic. In the early days of this trade the miller almost invariably sent his product for sale on consignment; drawing against it for a portion of its value, with the usual result, at length, of embarrassment on both sides. As matters progressed, consignments gradually gave place to purchase and sale; and this was carried out, not only with shipments to centres in Canada, but also to exports across the ocean. As time progressed and population increased, the mills situated along the line of water powers were enlarged in capacity, and steam called into aid, until, in some centres, large establishments were to be found, whose brand became well known, not only in every part of this country, but also in the centres of population in Europe.

In dealing with the men carrying on this business the banker will require the same fundamental conditions as to full ownership of property, capacity, experience, and prudence which have been referred to already. But as every trade has its special requirements and dangers, the banker, in making advances to a flour miller, will take care to limit them to such an amount that his funds cannot be used for speculative holdings.

If the miller carries on his trade steadily, and sells as fast as he

produces, advances will never need to be more, as a rule, than will buy about a month's supply of grain.

There is no branch of manufacture which is so simple in character, which takes so little time, and which adds so little to the cost of the article as milling. A flour miller is not like a lumberman whose article takes twelve months to produce, nor a tanner or pork packer whose process requires weeks or months to complete, nor a cheese-maker whose product, when made, requires time to ripen. The product of a flour miller can always be sold. The world needs and buys it every day, so that the process of manufacturing could go on, if circumstances required it, without any accumulation of stock whatever.

Some time, however, may reasonably be allowed for contingencies, both for obtaining a supply of grain, and of manufacturing, barrelling, sacking, and transporting to market.

If the advances exceed the amount required to purchase a month's supply of raw material, the banker will need to be satisfied that the condition of the market, the difficulty of transport, the blocking of supplies, or other causes, may account for the excess.

In a miller's account, as well as a grain merchant's, any indication of speculating on margin will need to be carefully watched and checked at the very outset.

The banker will also be careful that his advances are not expended in additions and improvements to the mill; or in the purchase of an additional one, should some tempting offer be made. A man who desires to stand well with his banker will never be tempted to such a misuse of funds advanced to him.

This trade, unlike that of timber and lumber, does not move in cycles of alternate prosperity and depression. It has its changes, nevertheless, but they are of a more transient character. The market is ebbing and flowing continually; and there is a necessity for the miller, like the grain dealer, to keep a daily and hourly watch upon it.

It scarcely needs to be added that every miller will act wisely in endeavoring to make specialties, which will practically sell themselves at better prices than an article which has no name, however it may be pushed. To do this, he will, of course, be rigidly careful in selecting his grain, have his machinery up-to-date, and work his process at every step to the desired end. And men of small capital in this business, perhaps more than any other, need to beware of launching into operations larger than their capacity or capital justify. It is so easy to do it; easier in this trade than any other that can be named. But in no trade is there more reason for the observance of the old adage,

"Vessels large may venture more,
But little boats should keep near shore."

The principles laid down so far will equally apply to such manufacturers as tanners, distillers, sugar refiners, and others of a like character,

where larger capital in buildings and plant is necessary, but where there is not a large proportionate employment of labor.

In all these there is required to ensure success a well chosen site, modern buildings and plant, adequate capital, thorough knowledge of markets, and if possible a special article with a well-known name and mark. And the banker who is applied to for advances (or for foreign credits under which he may be requested to surrender documents) will look carefully into all these points, so as to judge whether advances asked are of reasonable amount, and also whether, from the "working of the account," if he has had it before, the business appears to have been carried on prosperously or not. This will stand him in special stead in times of depression, when it seems impossible to make profits in any line of business, and when that most difficult alternative is presented, between making further advances and keeping a concern alive, or stopping advances altogether, with a certainty of bringing it to an end. In the former case, there is risk of increasing what may be a possible loss, tempered with an expectation of assisting a worthy customer over a difficult time, and avoiding a loss altogether. In the latter case there will be an absolute certainty of loss, with the wearing vexation of handling an insolvent estate, realizing stocks of merchandise (perhaps shipping them to distant markets, and waiting anxiously for returns), selling, or attempting to sell, mills, factories, lands, or ships; processes which every banker of experience has learned to dread as not only vexing to the last degree, but as almost invariably disappointing.

In such circumstances nothing enables a banker to come to a sound decision better than a knowledge, not only of the customer himself (which is the first element), but a general knowledge of the business he is carrying on.

COTTON AND WOOLEN MILLS, ETC.

There are, however, manufacturers of an entirely different description to the foregoing. In fact, these are seldom spoken of as manufacturers at all.

But we now have in Canada large developments of manufacturing interests, such as were formerly confined to England and the older countries of Europe, and which crossed the Atlantic, and became established in New England and other parts of the United States at an earlier period than in Canada. These last have been largely, but not wholly, the growth of a protective policy.

It is not the intention of this work to discuss the debated question of Free Trade vs. Protection. The fact is simply noted that there are now established in Canada, as developed by what is known as the "National Policy," cotton factories, woollen mills, iron-works, and many other manufacturing industries, with respect to all of which one particular point of difference from the former ones is noticeable, viz., the large amount of mechanical labor that is required to carry them on. To produce the same

annual output of goods in a cotton factory that would be turned out of a flour mill, for example, ten or even twenty times the number of artisans would be required. And the outlay for wages would be large, in a corresponding degree. Some of this class of manufactures are more indigenous to the soil than others; for example, woollen mills more than cotton mills; inasmuch as part of the raw material of a woollen mill is a product of the country. Woollen mills were therefore known in Canada long before cotton mills were heard of. Such mills, however, were of a very simple type, and corresponded largely to the grist mills of primitive days. These woollen mills, however, have now developed, in many cases, into large establishments in which goods are produced of a quality rivaling those of the old world. The same process of development has been seen in manufactures of iron, steel and agricultural implements. The blacksmith shops have grown with the growth of the locality. A primitive village has become a busy town or city, and the blacksmith of former days has expanded into a manufacturer of all kinds of goods in iron and steel, including machines for producing other things. Similarly the wagon maker and mechanic of a former generation is now the head of a vast establishment employing thousands of hands, and manufacturing agricultural machines, not only for the Canadian farmer, but for export to distant colonies of the Empire and other countries. The little cabinet maker's shop has grown into a vast furniture factory able to produce goods that can be exported to advantage to the mother country.

This process of development is constantly widening, and embracing other articles, other lines, and still wider areas of production.

All this must come under the cognizance of the banker; and the enterprising men who have developed these industries will certainly seek to be his customers, and need his facilities, not only to give cash for the bills of their customers, but in the way of direct loans.

With respect to these lines of manufacture, as has been observed respecting others, the first and fundamental requirement of a sound business concern is, that if the customer owns the property it shall not be encumbered; and, second, that whatever advances are obtained shall be represented by merchandise which has been paid for, or collectible debts.

In entering on the business of dealing with manufacturers, the banker will soon ascertain that there are great differences between the skill and capacity of one manufacturer and another. Even when business is generally prosperous, one man may succeed and another fail. Of several men who are carrying on cotton mills, one may have a sounder judgment of raw cotton than another, as well as of the best time and place for purchasing the quantity needed from time to time, and of the best mode of utilizing machinery. A whole season's productions may be damaged by errors in this respect. Men in the charge of woollen mills may also produce goods of a pattern that will not sell, or they may acquire a name for a badly made goods owing to poor machinery.

An agricultural implement maker may experiment upon new styles of

machines; which styles may be unsuccessful, and have, practically, to be given away. It is not, therefore, enough that a banker's advances should rest on merchandise as a matter of theory; for if they are employed to purchase poor raw material, or to produce merchandise that nobody wants, his reliance on merchandise may prove a delusion. Such things seldom happen to an extent which makes banking advances absolutely unsafe. But they have transpired in the experience of bankers, both here and abroad, and they manifest themselves in the inability of the borrower to repay, or reduce advances as agreed upon. And they often result in the banker having to take security upon property for the unpaid portion of the debt.

And here it is that one of the dangers of incautious banking arises. If a borrower has been able to obtain advances from a bank, while his property is mortgaged, the banker will have no recourse but to take a second mortgage as security. Now, second mortgages, of all forms of security, are the most undesirable and delusive; for in a majority of cases the banker will find that his customer has already obtained on the property such an amount as makes it impossible for anything additional to be got out of it.

But the greatest danger in carrying a manufacturer's account is that the funds loaned for the purpose of producing merchandise may be diverted in the direction of fixed property. A manufacturing establishment is subject to constant requirements for repairs, improvements, or additions, either to the building, the machinery or the power. Circumstances often transpire that seem to call for unusual outlay; some accident to machinery; some bursting of a dam; some fire not wholly covered by insurance; all of which call for expenditure that cannot be met out of profits. Or the manufacturer may be of a quick, inventive capacity; fond of trying experiments calling for new machines or additions to buildings.

In all these cases such expenditures should be met out of a reserve fund invested in a realizable form, or out of additional capital, or an issue of bonds. But in some cases they become a drain upon banking advances, and cause such advances to assume the shape of a "lock up." In this manner many of the losses in the manufacturing districts both of England and Canada occurred. Indeed, to such an extent has this been the case at times, that a manufacturing concern has drifted from bad to worse, until bank advances were represented by nothing but buildings and machinery, which when realized left a debt behind, on which the banker might receive a dividend of five cents on the dollar. These are not fancies, but facts.⁴⁴

⁴⁴ In one of the largest manufacturing districts of England a bank has long carried on business which had almost the whole of its resources employed in manufacturing accounts. Two principles have been rigidly observed in the management of this bank from the beginning, viz., that advances shall never exceed more than one-tenth of the annual output of the concern; and that all such advances shall be paid off once a year. (This, of course, does not refer to the discount of trade bills.) This bank has had a career of singular prosperity amongst

LOANS TO WHOLESALE MERCHANTS.

There is this fundamental difference between the wholesale merchant and the manufacturer: that the merchant, if his credit is good enough, can put the whole of his stock upon his shelves without the expenditure of a single dollar except for freight and duties. Good credit will enable him to obtain all he wants from manufacturers on this side of the Atlantic, or from wholesale houses in England. But a manufacturer can do nothing of the kind. From the time that he begins operations he has to provide for a cash expenditure which never ceases until goods are ready for sale. In nearly every branch of manufacture he must pay cash for his raw material and his fuel. And the moment he begins the manufacturing process, his pay-roll of wages confronts him week by week, and must be met. There can be no possibility of asking credit here; not for a single week could wages be left unpaid. In the case of the special lines of manufacture lately under review, where wages are a most important item of cost, the necessity of meeting the large sums required is the most harassing of all financial pressures. It presses indeed more heavily than the necessity of meeting acceptances and promissory notes, for the payees of these can be approached for renewal at a pinch, while a request to a body of workmen to defer payment of wages is utterly impossible. And as payment is imperative, the manufacturer will naturally, in such circumstances, have recourse to his banker.

Hence, it is more difficult to finance for a manufacturing establishment than for the business of a wholesale merchant. The latter, having the power to buy goods at all times on credit, has no reasonable ground for asking regular advances from his banker. His dealings should be confined, as a rule, to the discount of bills given by his customers.

The only payments a wholesale merchant has to make, which are absolutely imperative, are the customs duties and freight on imported goods. It is just as impossible to ask credit here as it would be for the payment of wages. But no wholesale merchant could reasonably think of commencing business without capital, and the very lowest minimum necessary would be an amount sufficient to pay the duties on the stock requisite to commence business, and thereafter on his average stock.

Once he has his goods in warehouse, he can begin to sell, and with such facilities as bankers are now ready to offer for the cashing of customers' bills, a merchant may, from a financial point of view, be said to be

all the fluctuations of the trade of the district, and its losses have been a mere fraction of such as have been suffered by even well managed Canadian banks.

It would be difficult to apply both of these rules to such lines of manufacture as saw milling and tanning, owing to the great length of the manufacturing process. But the last of them is an absolutely necessary requirement in every case. And the first, which implies that there should be a certain proportion between the amount of advances and the annual output, is important as indicating what is desirable in all manufacturing advances, the proportion varying, of course, with the condition of the business.

able to sell for cash. Thus, by the time the payments for his stock become due, the proceeds of his sales ought to be sufficient to meet them.

This elementary financial theory of a wholesale business becomes modified by circumstances as time progresses, and no prudent man would be satisfied with being so wholly dependent on his credit with other houses as to have nothing left over after payment of duties.

He will, of course, aim at having far more capital than that. But even on such a modicum of capital as is indicated, it is clear that no necessity should arise for loans from a banker. From all which the rule may be deduced that loans to a wholesale merchant (as distinguished from the discount of trade bills) should be considered as irregular in the nature of things, and only to be granted in exceptional circumstances.

When therefore a banker is applied to by a wholesale merchant for a loan in addition to a discount of customer's bills, he is put upon inquiry as to why such a loan is required. The reason commonly given is that goods are arriving in quantity in the Custom House and that the duties must be paid. But this, in itself, is not a good reason. For, as has been observed, the capital of such a house should be sufficient to provide for this requirement. The payment of customs dues can never take a merchant unawares. The necessity for it must have been seen long beforehand, and ample opportunity given for making provision. An application for a loan may therefore indicate that purchases have been too heavy; or that sales are not being vigorously pushed, or that an unsuitable stock has been laid in, or that the customers of the house cannot be depended on for payments. Any of these will cause the finances of a wholesale house to drag heavily, and they are all of such a character as to make a banker pause. The head of a house may naturally be unwilling to acknowledge that any of these suppositions are correct, and some are very unwilling to talk to a banker on the subject. Yet the application for a loan gives him the right to make inquiry; for experience shows that such things, if allowed to go on uncorrected, may be the beginning of a course which will end in insolvency.

There is this further reason for a banker's caution in this matter, that a dealer in imported or manufactured goods cannot give a banker security upon them. A miller, a tanner, a pork packer, can pledge his product as security for advances under the warehousing clauses of the Banking Act. But a wholesale merchant cannot do this under the Act. And there is reason for this distinction in the nature of things; for a wholesale merchant's stock has almost invariably been bought on credit. The goods on his shelves are probably not yet paid for. It would therefore be contrary to every principle of equity to allow a merchant to pledge his goods for advances while the claims of the creditors were unsatisfied. This being the case, it has become a practice for such loans to be applied for without security, and not infrequently for them to be granted in that shape. This certainly is a deviation from sound banking

practice. But the whole system of loans to wholesale merchants is exceptional, and requires exceptional treatment at the hands of a banker.

The character of that treatment may be indicated as follows:

First, no regular line of credit should be arranged for in respect of loans; that is, no amount which a customer can always have at his command. Second, advances should be temporary; each being applied for on its own merits, with the explanation of circumstances. Third, they should only be allowed at certain seasons, and never last more than two or three months at the most. Fourth, renewals should not be granted. Indications of continuance should be carefully watched and promptly dealt with. If advances become chronic, security should be insisted upon. Fifth, it is always desirable, too, that when such advances are granted to a firm, the endorsement or guarantee of each individual in its should be obtained; for individual partners may have separate estates which the endorsement would bind. If the business is carried on by a joint-stock company, the guarantee of some of the principal stockholders would be desirable.

By the observance of such rules as these, and with constant exercise of vigilance, loans of this character may be granted without unreasonable risk.⁴⁵

⁴⁵ In the early days of joint-stock banking in England and Scotland, when the business was not so well understood as at present, numbers of accounts in the manufacturing districts of England had drifted into the condition of being largely represented by fixed property. Half the cotton mills of Lancashire, the woolen mills of Yorkshire, and the iron foundries of the "black district" were mortgaged to the banks of that period, some of which were ruined by the heavy losses that ensued. These severe lessons have had their fruit in the improved style in which bank advances are made in these times to the mutual advantage of both the banks and their customers. The same condition of things prevailed in certain quarters at one time in Canada, and with the same result of either embarrassment or absolute ruin.

In a certain district of Canada where flour milling was a leading industry, it was well known at one time that nearly every mill it contained had fallen into the hands of the leading bank of the district by foreclosure of mortgage. This was the result of the style of business adopted by one who was known as a most enterprising and pushing manager, whose lavish dealing with the funds entrusted to him by his head office had not only ruined the customers who dealt with him but brought about heavy losses to the bank.

The disposal of these properties and the operations connected therewith, formed a principal part of the occupation of the officer who succeeded the enterprising manager. If the bank referred to had been an independent one, like the banks in small towns in the United States, it would have been ruined beyond redemption; but, fortunately it was only a branch of a larger institution which could afford to lose large sums with no more consequences than temporary embarrassment.

CHAPTER XVII.

LOANS TO RAILWAYS AND RAILWAY CONTRACTORS.

RAILWAYS UNDER CONSTRUCTION—PECULIAR DANGERS—RAILWAYS IN OPERATION—CONTRACTORS—DELAYS IN PAYMENT—ENGINEER'S CERTIFICATES—LOCK-UPS—CONTRACTS FOR RAILWAY COMPANIES—CONTRACTS FOR PUBLIC WORKS OF GOVERNMENT.

THE development of railways in modern times is one of the most striking factors in our industrial progress. Though they do not produce or create anything, they bring producer and consumer more nearly together, and lessen the cost of raw material to the producer and of finished products to the consumer, so much as to have given an enormous stimulus both to manufacturing and trade. This has been the case even in the older countries of Europe, whose every acre was cultivated long ago, and whose means of transportation were in a well developed condition long before railways were heard of. But whatever stimulus might be given to production and trade by railroads in older countries, it has been immeasurably exceeded by the effect which their construction has produced upon the undeveloped or partially developed regions of North America. Whether in the United States or in Canada, the effect of the extension of railways into undeveloped tracts of country has been such that it may almost be said that the railway has created the country. For, so far as the interior of the continent is concerned, when we consider the enormous distances to which the product of the soil had to be carried to reach a market, it will be seen there was an insuperable bar to profitable cultivation, and that great regions now populated and prosperous must have remained in their original state of wildness, but for better means of transit. But the railway which penetrates these regions enables their products to be brought profitably to market, and so opens up a path to settlement and the industrial development that follows. Thus it has been in all the Western States of the American Republic, and thus it has been in Canada in a most remarkable degree.

But at an early stage in these developments the intervention of the banker has been needed. The financing of nearly every railroad during the period of its construction has been attended with not a few financial difficulties; the only exception being the railroads avowedly undertaken as Government works. Of this we have had one conspicuous example in Canada in the case of the Intercolonial.

Railway corporations have two modes of raising money; viz., by the subscription of stock, and by the issue of bonds; the latter being partly of the nature of mortgages, and partly of long-dated promissory notes. Subscriptions on account of stock are invariably, in these times, paid in

to a banker; and this is the point at which the bank and the railway first come into contact. The banker opens an account with the company; receives money on its account; pays out that money as construction proceeds, often at widely distant points through the medium of its branches. The bank also, through the medium of bills of exchange, brings out moneys paid in by subscribers abroad, and places them to the credit of the company in Canada. All the foregoing are simple and natural banking transactions, and although the amounts involved are sometimes enormous, amounting to tens of millions in the course of a single half-year, they are not such as to give occasion for thought or anxiety on the part of the banker. So long as the sums drawn out are no more than the sums paid in, the transactions are part of the mere routine of banking. This is the elementary theory of banking in connection with railroads during construction.

But, as a matter of fact, it often happens that the financial operations connected with the building of a railway do not run as smoothly as this. The incoming of money does not always keep pace with the exciting demands of its outgoing. These demands are imperative, consisting as they largely do of wages of laborers and artisans. It has already been shown how necessary it is to meet demands of this nature at the time they are due. It happens, therefore, at times, that emergencies arise which lead to an application to the banker for advances. The banker is naturally the person applied to, as the company is having large monetary transactions with him; and the application can be represented as simply the honoring, for a short period, the checks of the company, until subscriptions are paid in, or bonds are sold. It has thus come about that many a banker has been induced to consent to advances, which, though represented, with perfect sincerity, as "temporary," were found to have an unpleasant element of permanency about them in practice. The new subscriptions or the proceeds of new bonds could not in some cases be applied to the advance, inasmuch as the money was required to meet other and more imperative demands. The temporary overdraft, therefore, went on, with varying amount, but undischarged, even for years, until some turn of events after completion enabled funds to be set aside to meet the banker's claim.

These, however, are not the only contingencies that meet the banker, when, as is generally the case on this side the Atlantic, the money is raised in one country and expended in another. The officials of a road under construction are subjected to constant pressure to find funds for vast pay-rolls regularly recurring, sometimes running up to millions; and on the banker demurring to increasing an overdraft, would suggest that he might cash bills of exchange drawn by them on headquarters. They might not, it is true, have explicit authority for so doing. But they would trust to the exigencies of the case being recognized and the bills honored. Such things have been known, however, as of these bills

being refused acceptance or recognition, and of the banker being compelled, to his intense disgust, to write them off, as losses.

A case has also happened where a railway, pushing works of construction ahead, for a road of which it has obtained control, but which is still carried on under its old name, has made arrangements with a bank for supplies of money from month to month to be repaid periodically by drafts on the headquarters of the company. For a time the arrangement works smoothly, and advances are paid off periodically. But, as time goes on, money is not paid in the one country as fast as it is needed in the other. The bankers, therefore, are asked for the periodical payment to be deferred. Meanwhile, outlays proceed, advances go on increasing, until at last the bank is itself embarrassed by the huge amount to which the account has grown. Further advances are therefore stopped, and payment demanded of those existing. Then, to the disgust and alarm of the bank, the point is raised as to which corporation has had the advances. Is it the corporation that has obtained control of and absorbed the other, or the corporation which has been absorbed, but which is practically a mere name? The first repudiates responsibility. Litigation ensues, and is continued for years. Meantime the bank is embarrassed by the enormous amount of its funds locked up, and suffers in credit through the facts becoming known. The case is finally settled by an arrangement for a special issue of bonds, the whole of which are handed to the bank. But of these bonds neither interest nor principal is ever paid, and the bonds themselves are finally cancelled by legislative arrangements, which give the bank about one-tenth of its advances, the remainder being a total loss. Largely as a consequence of this, the bank ultimately suspends payment and finally passes out of existence.

Advances to a railway during construction are therefore critical affairs, and require much judgment and caution, and also much firmness, on the banker's part, in dealing with the account. Such advances, if once allowed, are almost certain to increase. And as the disbursements, during construction of even a small railway, are very heavy, the pressure for advances may soon raise them to large amounts. The only safe rule for a banker with an account of this kind is to be firm at the outset, and not to allow the thin end of the wedge to be inserted without outside security.

It is a delusion to suppose that a railway corporation must in the nature of things be good to repay advances. A banker, until he has learned the contrary by experience, finds it difficult to believe that a corporation, with a paid-up capital of millions, can fail to pay its debts. But reflection would teach him that when the whole of the capital aforesaid has been expended in works, from which it can never be extracted again, it is impossible that capital can furnish the means of repaying what he has lent. Still more is this the case when such a company

stretches its borrowing capacity in the shape of bonds to the utmost extent to which the market will take them; which bonds are sometimes constituted by law a first mortgage on all the property of the company. The banker therefore finds himself in a difficult position if he attempts recovery by law; he indeed finds this impossible.

It may be taken therefore as an axiom in banking, that advances to railways in construction should never be undertaken without security beyond that of the railway itself. Even if bonds are offered as security they should be received with caution, for the proper mode of raising money on the bonds of a railway company is to place them on the market. That is an infallible test of their value. The market price is simply a consensus of the opinions of the financial world.

Many instances have been known, of a finished railway barely paying working expenses, and our own Intercolonial railway is a conspicuous instance of this. The bonds of such a road are, of course, valueless, so long as this state of things continues. They may have a speculative value, in view of future developments. But improvement may never be realized.

Advancing on the strength of future stock subscriptions may prove as delusive a foundation for a loan as anything that has been referred to. Experience has proved that when the outlook has become distinctly unfavorable subscribers will not only neglect to pay their calls, but will resist legal process by every device known to the law.

Advances to railways in actual operation, however, rest on a different footing. When a road with an established traffic desires a temporary loan for the purpose of laying in supplies, let us say, of fuel at the approach of winter, such a loan may be regarded as legitimate and safe. For the repayment of such a loan would practically be a disbursement for working expenses, and would take precedence of any claim connected with its bonds or stocks. But then a banker must exercise a discriminative judgment in regard to advances like this: for there have been instances of railroads getting into such low water that no dependence could be placed upon them for any sort of payment. This, however, cannot fail to be known to the bankers of such a company, and they would be wanting in judgment to a singular degree if they did not treat such a railway as they would an impecunious mercantile borrower.

A railway corporation, in fact, comes to have what may be called a commercial standing, exactly as a merchant does. It is not common for mercantile agencies to enter railways in their books, and give them grades of credit; but, if they did, they would find it necessary to use as many symbols as they do in case of merchants. Some would have the highest grade of credit that any marks could indicate, while others would be found at the other end of the scale. But as there are no books of reference indicating the standing of railways, and any reference to

their supposed capital is utterly delusive, a banker must himself take means to find out what is necessary, only taking care that he does not find it out by costly experience.

RAILWAY CONTRACTORS.

Closely connected with the foregoing are advances which banks are often called to make, during construction, to railway contractors. Through the hands of this class of the community very large sums pass during the course of construction, and the expenditures of a single month, at times, run up into millions of dollars. The usual course is for payments for work to be made on the certificate of an engineer or inspector, at periodical times, named in the contract, and usually once a month. This process seems very simple and not likely to lead to financial difficulties. But experience teaches otherwise, as will now be shown. Any person or firm engaging, or contracting, as the phrase is, to do a certain piece of work, will require, before he begins it, a considerable stock of material and plant. He must have horses, barrows, shovels, wagons, and a variety of other tools and plant of more or less value, according to the extent of his contract. In some cases the whole of the contractor's capital will be invested in his plant. If he opens a bank account, and it is almost a necessity that he should, he will inform the banker of the amount of money he has so invested, and will, naturally, open to him the amount of the contract, the mode and time of payment for his work, and so on. In fact, he will explain his position, so that, in case he requires advances, the banker may understand what to do. In a majority of cases, a contractor will want advances before he has got on far with his work, for the pay-rolls of his men will come due, and must be met, before his receipts from the company come in. For there is always an interval, during which his work is being measured, his account passed, and payment received in the treasurer's office. This interval may be days or it may be weeks, but his little army of workmen cannot wait for weeks, or even for days; they must be paid, or they will not go on with the work. Now, some contractors have available capital enough to enable them to pay their wages in the interval; that is, they have, in addition to the capital they have expended on the plant, or material, sufficient, at least, to meet a month's pay-roll of their men. Men of such capital as this seldom require advances at an early stage of a contract, though they may do so later on.⁴⁶ But the majority of contractors have not so much capital as this, and are in the habit of applying to a banker for advances, the ground for such application be-

⁴⁶ The author well remembers an account opened with the bank in which his early days were passed, by the contractors for the works of the Manchester & Sheffield Railway. They deposited a single sum of £80,000. Large as this was, it was all absorbed as the work went on, and they had to apply to the bank for advances.

ing that so much work has been done or will be done at the end of the month, when the account will be presented, certified and paid. And as payment is supposed to be sure, the borrower will represent that advances must be safe. In many cases, the contractors will give to the bank a written order on the treasurer of the company, directing him to pay the account to the bank when certified. This might seem to make the advance perfectly safe, especially if the treasurer undertakes to comply with the order. But a treasurer will almost certainly avoid binding himself to pay a specified sum of money at a specified time. He will generally simply acknowledge the receipt of the letter, or if he goes further, he will say that it has been placed on file, probably calling the banker's attention to the fact that his duty is only to pay whatever sum may be certified by the engineer of the company to be due. And here we touch the vital point of the whole matter, for, as many bankers have found to their cost, nothing is more common, in railway work, than for disputes to arise between the contractor and the engineer, and for such disputes to remain unsettled for a length of time. In the interval, possibly, payments may be made on account, but not nearly enough to cover the banker's advance. Meantime, another month's work has been going on, and pressure is put upon the banker for further advances, which he may yield to, under expectation of a speedy adjustment of differences. This the contractor will give strong assurances of. The banker therefore is in a difficult position. If he refuses to advance further, his customer cannot meet his payments. The work must therefore stop, his contract will be annulled, and any drawback in the hands of the company forfeited. This will almost certainly result in a loss to the bank; for such a contractor's capital will only be represented by plant and material, which will depreciate to a mere nothing if sold, though it may have cost a very large sum of money. On the other hand, if he goes on, he may continue to have a profitable account and come out safely in the end. Perhaps he may stipulate for an extra charge in consideration of the extra risk; but whether he comes out well or not will largely depend upon whether the contract is a good one, and what the amount affected by the dispute is. It may be \$5,000; it may be \$50,000; it may be even \$500,000; but a contract is rarely finished without a dispute of some kind, as to the quality or quantity of the work; whether a certain amount of material removed was not rock instead of earth, whether the foundations of a bridge are properly laid, or what not. Sometimes engineers are to blame for these disputes; sometimes contractors. But in any dealings between a banker and a contractor such possible contingencies must be taken into account. Some of the most exasperating "lock-ups" that have been known in the history of banking have arisen in this manner. Such disputes often lead to lawsuits; and even though an award may be made in the contractor's favor, a delay of years may transpire, during which interest has been accumulating and

costs mounting up, while the amount of the judgment may be far less than the debt due to the bank.

If the contractor has other resources than the capital in his plant and gives the bank security on them, all may be well in the end; if not, the result may be that the "lock-up," or a considerable portion of it, may become a bad debt.

No banker, therefore, will consider himself safe by the mere fact that he has security, so called, in the shape of an order on a railway company to pay him what they owe the contractor, if the order be in general terms and unaccepted.⁴⁷

But all advances to contractors are not such simple matters as the foregoing. Not seldom a contractor will approach a banker before work has begun with a proposal for a credit of a round amount, having no relation to any specific sum as earned, or to be earned, in any particular month. And the banker, knowing him to be a man of good standing, and to be the owner of real property in the neighborhood; knowing also that he understands his business, and that his account may yield large and profitable transactions, may grant such a credit. Yet a portion of the money advanced may be used to purchase that miscellaneous collection of articles known as a contractor's plant, which costs so much, and is ultimately worth so little. Or there may be, for some reason, unusual delay in passing the accounts, or accidents may transpire from water, fire, or dynamite; or there may be miscalculation as to the nature of obstacles to be overcome, especially in deep cuttings, high embankments, or bridge building. Or the contractor may have miscalculated the cost of numerous materials he requires to use; in fact, the casualties are almost innumerable, and what position the contractor may be in by the time he gets to the end of his work, a mere lottery. It may be a fortune; it may be bankruptcy.

All that is said in regard to contractors for railways applies even in a stronger degree for contractors in government works. And for this reason, that whatever delays may be experienced in the passing of a contractor's account by a railway company, they are sure to be more protracted in a government department.

The habit of delay, the cumbrous circumlocutory system which inheres in all government offices, which it is vain to remonstrate against, is certain to bring about greater delays in this case than in the other. And in case of dispute, the engineer or inspecting officer of a government department is apt to be more exacting, and more firmly set in his opinions, than the officer of a railway corporation. And in case the dis-

⁴⁷ It has not seldom been the case in difficult times that a contractor could not get his certificate paid, even when there was no dispute about it, owing to the company being unable to float bonds, or to get calls paid, or to make efficient banking arrangements. Numerous cases of this kind have arisen where the works were on this side the Atlantic whilst the money had to be raised on the other.

pute leads to law proceedings, the machinery requisite to carry on such proceedings leads to delays which are interminable. Many an unfortunate suitor has been driven to distraction, or to bankruptcy, by such suits; yet there is generally, on the part of the officers that defend them, a sort of consciousness that they are doing well in protecting the public at large against unjust claims, on the part of individuals; a most formidable obstacle to settlement.

There is this, however, to be noted, as a set-off against all disadvantages of doing work for a government, that payment, at any rate in countries like Canada, Great Britain, and the United States, is certain in the end.

But the same cannot be said of all governments, as has been seen.

CHAPTER XVIII.

LOANS AND ADVANCES TO GOVERNMENTS AND MUNICIPAL CORPORATIONS.

ENGLAND—THE UNITED STATES—FRANCE—INSOLVENT GOVERNMENTS OF EUROPE—THE SEPARATE STATES OF THE UNION—SEPARATE PROVINCES OF CANADA—MUNICIPAL CORPORATION LOANS.

THE dealings of bankers with governments have peculiarities of their own, and at times are so important that the whole foundation of a banking corporation has rested upon them. This was the case with the Bank of England, the very purpose of whose establishment over two centuries ago was to aid the finances of the Government of the day.

By the terms of its constitution its whole capital of one million sterling was loaned to the Government of the time, and this primal condition has been observed down to the present day through all the changes and vicissitudes of the last two centuries. Although the capital of the bank has been increased from time to time until it now amounts to fourteen millions sterling, there never was a time when the whole of it was not lent to the Government. The debt is represented by those Government securities which regularly appear in its published balance-sheet, and with which, so far as the amount of its capital is concerned, it cannot part without a forfeiture of its charter.

In consideration of this, the whole business of the Government of England—using that word in its broadest sense—has always been done with this one bank.

The Bank of England, however, is not a Government institution, as is often supposed. It is distinctly a banking corporation with its own body of stockholders who elect its own board, appoint its own officers, receive dividends out of profits, and hold annual meetings exactly as do other banks. In all these respects the Bank of England is on the same footing as an ordinary joint-stock bank. The only difference is that in consideration of its relation to the Government it has powers of circulation of a peculiar kind, as opened up in another chapter.

But notwithstanding that the Bank of England is not a Government institution, the fact that the whole financial business of the Government passes through its hands, has always been held to constitute a claim on the part of the Government for financial assistance should it ever be needed; *and that in preference to the commercial community.* If the commercial community were urgent for discounts at the same time as a Chancellor of the Exchequer was urgent for advances, there can be no question which of them would have the preference. Yet the instinct of self-preservation

is as strong with the Governor and Company of the Bank of England as it is with the directors of any other corporation, and that would undoubtedly prevail in case the demands of the Government were likely to endanger its existence. This, of course, has been well understood by every Chancellor of the Exchequer from the beginning, and no demand would be made upon the bank that would be likely to bring it into danger. The bank is altogether too valuable an adjunct for any Government to allow its usefulness to be imperilled; besides, there are other ways in which the Government could borrow to meet pressing emergencies, such as the issuing of Exchequer bills and so forth. Yet undoubtedly it has happened at times that the directors of the bank must have felt their position with the Government to be burdensome, notwithstanding the privilege of having its notes made legal tender. A natural longing for freedom to use their immense capital in a way that might seem agreeable to their own judgment as directors of other corporations could do, would, at times, almost of necessity arise, and if it did so arise, would be pardoned.

The principle of lending the whole capital of a bank to the Government prevails also in the United States, as has been set forth in another chapter. Most of the National banks lend their whole capital to the Federal Government, and receive in acknowledgment bonds for the amount. The banks are authorized to issue circulating notes on the security of these bonds and every possible safeguard has been devised in order to render these notes secure. The Government retains the custody of the bonds, thus insuring that the bank cannot dispose of them. The Government also furnishes the notes to the bank, thus insuring that the proper amount and no more shall be put into circulation. These notes, though absolutely secured by the Government, were never made a legal tender, the reason probably being that the Government itself became an issuer of legal-tender circulating notes, and is so to this day.

The Bank of France has a more intimate connection with the Government of the day, whatever its character might be, than the Bank of England. The Government is always represented influentially on its board, so that the obligation to meet its necessities bears upon it with even a stronger pressure than in the Bank of England. Still, the Bank of France is not a department of the Government, and its advances must be regulated in the last instance by the all-prevailing law of self-preservation.

It might be supposed that advances to governments must, in the nature of things, be safe. But experience teaches some bitter lessons in this respect. All governments are not like the Government of England. There have been times, revolutionary times of course, when the obligations even of the Government of France became utterly valueless, and its promissory notes so depreciated that a thousand francs of them would hardly buy a loaf of bread. Yet these were secured by assignments of Government lands, and hence bore the name of *assignats*. A similar state of things prevailed in revolutionary times on this Continent when what

was known as Continental money of the revolting colonies became as much depreciated as the assignats of France.

Of this state of things we have seen a repetition in recent times with regard to notes issued by the revolting Southern States. These became, every one of them, absolutely worthless. It is well known in the higher circles of finance in Europe that the Government of Spain has more than once compromised with its creditors, exactly as a merchant does when he cannot pay his debts. What is more, that Government has even compromised on its compromise.

At this very time the Government of Turkey is under heavy default on its obligations, and if it were a railway company, we should say it was in the hands of a receiver. A certain portion of its finances are administered by representatives of its bondholders, comprising French and English capitalists, each of whom, in terms of a year about, receives certain allocated revenues, and after appropriating a certain sum for the interest on bonds, pays over the balance to the Turkish Government, if there be any.

A government is unlike any other debtor in this respect, that if default is made, there is no mode of compelling payment except by going to war. In all ordinary cases of debt the remedy is to appeal to the judgment of the court, which judgment will be enforced against the debtor by the Government. But when a Government itself is the debtor, there is no higher authority to appeal to, unless in these times the international tribunal of The Hague may be considered such. But how could that tribunal enforce its decisions? Nothing but the terrible arbitrament of war will meet the case. Now, private persons, no matter how rich and powerful, cannot levy war. Their case must, therefore, if it is to be enforced at all, be taken up by their own Government, which if payment is refused, can declare war, seize custom-houses and ships, and bring the whole machinery of the defaulting Government to a stand. This was the *raison d'être* of the measures taken against the Republic of Venezuela by Germany and England in 1902.

Bankers therefore who keep accounts with governments and make advances to them have always this risk to reckon with. They cannot compel payment. Even if a government endeavors to satisfy the bank by an issue of bonds, there are difficulties and disadvantages even in this simple process. If the Government is a constitutional one, bonds cannot be issued without authority of Parliament; and such an issue may become a matter of fierce contention between opposing parties, may be delayed indefinitely, or refused altogether. Or if the government has succeeded in obtaining authority to negotiate a loan, it may have already exhausted its credit, in which case it cannot press more bonds upon the market without a heavy sacrifice. Canada itself before Confederation, consisting only of Upper and Lower Canada (corresponding to the present Provinces of Ontario and Quebec) had sunk so low in credit that its London agents were unable to place further loans upon the market ex-

cept at a heavy sacrifice. These agents being under heavy advances themselves, at one time absolutely refused to increase these advances, and wrote letters, as may be seen in the Blue Books of the time, to the Finance Minister of Canada couched in terms exactly similar to those employed by a banker to a debtor whose bills were overdue. It was natural, therefore, under these circumstances that the bankers of the Government in Canada should be called on for advances to a constantly increasing amount, which advances becoming, at length, really embarrassing, led to consultations and conferences which finally ended in the proposal for a Government issue of circulating notes. The present legal-tender note issue of the Government of Canada had its origin in this way.

Since this great settlement the credit of the Government of Canada has steadily improved, and its bond issues are almost on as high a level as those of England. Its relations with its bankers have therefore never since ceased to be satisfactory; and at times when other Canadian banks have been called on to co-operate in placing loans on the London market, they have gladly consented to do so. It is to be noted, however, that the Government of Canada, through all the periods of strain and stress of commercial and financial depression has never failed to meet the interest on its bonds to the day.

There are, however, other forms of Government advances than those referred to; namely, those of the separate States of the American Union, or of the separate Provinces of the Dominion of Canada. Each of these has its own financial system. It levies taxes within certain limits, collects and disburses revenue, and places bonds upon the market exactly in the same manner as an independent State does. Each is a separate financial entity, and has a character and credit of its own.

The Provinces of Canada differ widely in their financial position; but all have maintained a reputation for meeting interest on their bonds with as much regularity as the Dominion Government itself. Nevertheless, there would be a wide difference of judgment in the case of an application for loans as between one Province and another. This matter is well understood by financiers.

As to the mode in which pressure could be brought to bear in case of difficulty or embarrassment, an appeal in Canada would undoubtedly be made to the Dominion Government, which Government possesses powers in the way of compulsion in the fact of its granting subsidies to the different Provinces. The case may never arise when the question of withholding a portion of these subsidies to meet the claims of creditors may become a practical one. Nevertheless, it is conceivable that under circumstances, say, of exceptional extravagance in expenditure on the part of a particular Province and consequent default, the claims of the creditors may be carried before the higher power and demand made that pressure be put upon the defaulting Province.

In this respect the Canadian Provinces differ from the States of

America. The latter receive no subventions from the Federal Government, and their finances are on an entirely independent basis.

It may be laid down as a general principle that the advances of a bank to a Government need to be regulated by the same fundamental rules as those to a municipality or a business corporation. A prudent banker dealing with a Government will keep advances down to such a level that they can be repaid out of the year's revenue. These advances should always be represented by and rest upon this asset within sight; with the exception, of course, of advances in anticipation of the floating of a duly authorized loan; in which case the sole matter for consideration will be whether it is likely to be successfully placed upon the market.

But in the case of a Government undertaking great works of construction, such as Canada has more than once undertaken, to its embarrassment, a banker will be careful lest his advances do not eventuate in a "lock-up" which is embarrassing to himself.

LOANS TO MUNICIPAL CORPORATIONS.

This is a branch of banking advances in which grievous mistakes have, at times, been made, and respecting which it is desirable to act according to fixed rules suggested by experience.

It will be found on consideration that the same general rules and considerations apply here that need to be observed in other lines of banking advances. In the business of a corporation, as in that of a manufacturer, there are expenditures on permanent works, and expenditures which may be termed "current and annual."

It is evident that the first class of expenditures should be represented by bonds spread over a term of years, and that only expenditures of a temporary character, resting upon collectible revenue, should be represented by loans from banks. With these two leading principles kept well in mind a bank may steer its way safely through this class of business.

There are enterprising corporations as there are enterprising manufacturers, and the readiest way of obtaining money for schemes of improvement and extension is to apply to the bank where the account is kept.

Now, there are expenditures regularly going on in every municipality to provide for which an annual levy of taxes is made. It is obvious therefore that a bank may reasonably make advances to the amount of such levy, pending the collection of taxes, of course, with a fair allowance for such as are not collected or collectible.

But expenditures for permanent improvements can rarely be provided for out of the annual levy. The money required should therefore not be borrowed from a bank, unless indeed, bonds, duly authorized, are about to be put on the market, and a loan is desired in anticipation. In that case the banker's business will be to see that the bonds are such as are likely to find favor in the market.

But even during the currency of a year, a banker may need to be careful about the amount he advances. An era of extravagance will some-

times set in with a municipality under the regime of an enterprising mayor or council, exactly as it may with an individual. In that case there will be strong pressure put upon a corporation banker to extend his advances beyond due bounds. He will then need to remember that there are charges upon the income of the municipality which take precedence of his advances. Wages of employees, for example, and interest on bonds; these cannot be left in abeyance. For it has been the just pride of Canadian municipalities (with one or two exceptions after the collapse in the Northwest) that they never made a default in their bonds, either of interest or principal.

In carrying on the account of a corporation a banker will need to keep the foregoing in view. He will also be careful not to allow one year's advances to be carried over into another. Each year should stand on its own foundation.

This is the regular and normal working of advances to corporations. But both in times of prosperity and adversity there are apt to arise circumstances which militate against it. In times of expansion and prosperity when a close watch is not kept over the finances by corporation officials, expenditures of a fixed character sometimes get so mixed with those that are temporary that the moneys advanced for the one may become locked up in the other. This is especially the case when advances are made in the form of an overdrawn current account. Nothing is more easy than for a treasurer or finance committee to issue checks *ad libitum*, the result of which is that the banker finds himself at the close of a corporation year with a heavy undischarged debt.

This, of course, may not give a banker the same anxiety as if the debt were against a mercantile firm. A corporation cannot go out of business as a merchant can; and the cases of corporations being absolutely unable to pay their debts have been extremely rare. Usually the worst consequence of abnormal advances is that a certain amount of money is *locked up*. Now, though a "lock up" is not the same as a bad debt in its ultimate consequences, it may, if large enough, be a cause of real embarrassment. It may, however, be thought that a banker's advances can always be prevented from becoming embarrassing by a corporation issuing bonds, or in a last resort, exercising the power of taxation. There are, however, serious limitations to both of these plans. Corporations cannot issue bonds except within the limits of their charter or the general law. If attempts are made to extend such powers, the ratepayers are very apt to initiate opposition. With regard to taxation the same objection would apply in even stronger form. Nothing provokes more determined opposition than undue increase of taxation.

The only mode left under such circumstances is a considerable retrenchment of expenditure; but that, too, is a very difficult process, as anyone connected with municipal matters knows well.

A banker therefore who has incautiously allowed his advances to drift into this position may have the mortification of finding it impossible to

collect for years the amount due, and of being under the necessity of curtailing advances to mercantile customers. All that has been observed with regard to this matter is founded on actual experience.

The total amount which a municipal corporation may prudently borrow, that is in a permanent form, is a question on which different opinions may be and have been entertained. It generally resolves itself into a question of so much per capita of population. But here distinctions must be made. For some municipalities are so much wealthier than others, as a whole, that an amount per capita that would be a serious burden to one would rest lightly upon another. But the limit of safety will be found, as a rule, to lie between sixty and eighty dollars per capita; the former, let us say, in the case of a municipality having a considerable population of artisans, and the latter where a much larger percentage consists of the well-to-do class; such, for example, as towns resorted to for the purposes of health or recreation, or which are agreeable places of residence for persons of competence. Suburban towns within reach of a great city can bear a higher rate of debt per capita than many others; but there have been on this Continent (but not in Canada) some striking instances of extravagance in such places under the regime of an enterprising mayor or council, when new streets, squares and boulevards were made in advance of population, burdening the existing inhabitants to such an extent that the taxes became intolerable, and compelled many of them to leave the place altogether. Thus the expenditure defeated its object. Population, instead of being attracted, was driven away, so that those who had property in the place and could not leave were compelled to allow the bonds of the corporation to go into default. Under such a cloud as this an attractive municipality might lie for years, its bonds becoming for a time almost worthless until some forced arrangement was made with creditors that lightened the burden of taxation, and enabled the natural advantages of the locality to assert themselves and bring in population.

Such a state of things as this would scarcely arise until the municipal debt had increased to more than a hundred dollars per capita.

Sometimes, in a large and prosperous city, under the regime of an enterprising board of aldermen, great works of improvement would be planned and carried out year after year that added nothing to the revenue of the city, while they added immensely to the burden of taxation. Such expenditures might at length become so serious as to arouse organized resistance on the part of the property-holders, and appeals to the Legislature to limit the borrowing power of the municipality. Under circumstances such as these, if a bank went on making advances on open account, there might be danger of such advances being declared to be beyond the limit of the law, and considerable difficulty might arise as to liquidation.

The above observations as to the limit within which the debt of a municipality should be kept are of course irrespective of expenditures of a remunerative character. If a municipality borrows for the purpose of

acquiring water-works, or other revenue-producing property, it may safely exceed the limit laid down herein, always on the supposition that the price paid for the same be such that the revenue will meet the interest and provide a sinking fund in addition.

But experience shows that a municipality has always a tendency to manage such works less economically than a private company would; hence there is a constant danger that revenue may be insufficient, and ordinary taxation resorted to for meeting the deficiency.

The banker of a corporation needs, therefore, under all circumstances to keep a close eye upon its financial management. And he may render essential service to the citizens by imposing, when needed, stringent checks upon borrowing.⁴⁸

⁴⁸ Nothing in this chapter need prevent advances to a corporation pending the sale of a duly authorized issue of bonds, on the strict agreement that such advances shall be liquidated out of the proceeds of the bonds. A banker in such cases may act as intermediary in the matter and have the bonds in his own possession until a sale is effected. In all such cases it is desirable that a separate account be opened, so as to prevent these extraordinary advances from becoming mixed with those that are of an ordinary character.

CHAPTER XIX.

LOANS ON STOCKS AND BONDS.

GROWTH OF THIS BRANCH OF LENDING—CALL LOANS—LOANS ON TIME.

THIS branch of banking loans has come into great prominence of late years on both sides of the Atlantic, owing to the increasing difficulty of obtaining satisfactory commercial loans and discounts. The immense increase in the deposits entrusted to Canadian banks has more than kept pace with the increase of satisfactory commercial business; hence, with many banks, the larger ones especially, it has become a regular branch of business to make advances on the security of bonds and stocks; not that, as a rule, they have deliberately passed by commercial business in order to enter upon this branch. No bank has a right to do this, for the very object for which banks are chartered is to promote trade and commerce. It is only when this requirement is fulfilled that banks can fairly enter upon this other field of enterprise. To put it in one word: it is only the banker's *spare funds* that can be properly so employed. The amount of such spare funds varies with the course of business and the season of the year; but, generally speaking, there is always sufficient to engage some measure of a banker's attention, and to make it important that he should master the principles on which loans should be carried on.

There are two very important differences in this class of business, usually expressed by the term, "loans at call," or "loans on time." There is also a distinction between "loans on bonds" and "loans on stocks."

LOANS ON CALL.

By far the larger part of these are secured by stocks, of which there is in Canada a comparatively small range to choose from. Loans on bank stocks have been prohibited; for, when permitted, they gave rise to dangerous speculation. There remains, therefore, only the stocks of railways, shipping companies, and industrial enterprises. A banker in dealing with these will do well to make it a rule to lend on *no stock that is not listed and regularly quoted*. He will require as a minimum a margin of ten per cent., but the higher the price the larger percentage of margin he will exact. In fact, when a stock is obviously inflated, he will do well to fix a definite limit to his advances, no matter how high the stock may be quoted. This is a cardinal rule, and it will be found very dangerous to depart from it. He will be careful to have a substantial *borrower*, and avoid dealing with impetuous speculators, no matter how good the security may seem to be. And he will keep his eye upon

the fluctuations of the market, and take means to keep well informed of the doings, speculations, and schemes of the principal operators. He will do well to observe certain rules or traditions, the result of experience, which, when applied, will rule out wrong classes of securities altogether. The greater part of call loans will be to stock brokers. Loans to them are *prima facie* safer than to principals, for the reason that they themselves have a principal behind them on whom they can call if needful. A banker dealing with brokers is, therefore, almost in a position of having a double security, besides the stock itself. A banker will take care to have his risks *well distributed*, not only amongst persons, but amongst stocks. He will take care not to have too much loaned on any one stock, otherwise he may find to his annoyance that he has been a party to some scheme for inflating a stock beyond a reasonable value. He may then be caught in a reaction, and find that he has *locked up* his money, instead of having it at his disposal on a day's notice. In a limited market like that of Canada, a banker will need to be careful not to have too much money out upon it. Experience has proved that this market cannot stand any very heavy strain of calls for money, especially on stocks that have a local value only.

Some stocks there are on which money can always be obtained in New York or London. These, of course, can bear a much heavier strain of call than the rest. But if advances rest on stocks that are not known in New York or London, the calling in of loans may sometimes result as "the calling of spirits from the vasty deep" by the Welsh bard was said to do.

But much of the money lent on call by Canadian banks is through offices in New York. There the field is immensely greater. There is a much greater variety of quoted stocks, the changes in which are known far more rapidly than is the case in Canada. There are large numbers of brokers of solid means and standing, who are well able to stand the changes and even shocks of the market, as has been repeatedly proved. The tone of honor amongst this class is high. If calls for money are made, it is a point of honor to respond at once; and if the call is for more margin, it is at once lodged. No complaint is ever made either of the suddenness or the amount of any call; or even of the sale of stock in case the call is not responded to—a rare event, however.

The great objection to the New York market is the rapid changes in the rate for money, and the fact that the rate may be as low as two to three per cent. for months together. Then, in a remarkably short time, the market may assume such a condition that rates of ten, fifteen, or even twenty per cent. per annum are paid without grumbling. This state of the market, however, rarely lasts more than a few days, or a few weeks at most; and, during its continuance, a vast amount of clearing out of weak speculators usually takes place.

The New York market, as is well known, is occasionally visited by

spasms and cataclysms. Memories of "Black Fridays" still linger about Wall Street (as indeed they do about Lombard Street), but these spasms are not so common now as formerly. They depend partly upon the money market itself. A continued period of very tight money will result in sharp spasmodic movements in which a fall of twenty to thirty per cent (or even more in some cases) will take place along the whole line of stocks in a single day. Yet so solid is the underlying stratum that it has been known again and again that banks having large sums out "at call" have found themselves at the end of a most convulsive day in just as good a position as at the beginning. Their calls for margin or for payment had, in every case, been responded to, and not a single failure occurred amongst the circle of their customers.

LOANS ON TIME.

The principal point of difference between call and time loans is that the latter are more nearly analogous to the ordinary loaning operations of the bank, and are not a mere employment of funds that may be wanted at any time, and must be at command on a day's notice.

A banker who is purposing to make loans on time will consider whether the prospective state of his finances warrants this mode of employing his funds. He will also scrutinize the security more carefully and avoid such stocks as have a tendency to considerable fluctuations during a given course of months. It has happened to a lender of money on time, that circumstances transpired making it most desirable, and indeed necessary for safety, to call in the loan. But being precluded from doing this, he was compelled to allow it to run on and so to submit to a loss. Loans on time are often advantageous to a banker with whom money is plentiful, when the rate he can command is good. He is saved from the trouble attendant on the constant changes involved in dealing with call loans, and will sometimes have the satisfaction of having his funds out at a higher rate than call loans are bringing. Of course, his experience may be the contrary.

There is one fundamental rule which experience has suggested in dealing with loans on stocks, viz., that it is never desirable to lend direct to the promoter of a company or to the man who owns and controls the majority of the stock in it.

CHAPTER XX.

THE DISCOUNTING OF TRADE BILLS.

DEFINITION OF TRADE BILLS—DISCOUNTING WITH MORE THAN ONE BANK—BILLS UPON BRANCHES OF THE SAME HOUSE—BILLS OF SELLING AGENTS—BILLS OF WHOLESALERS ON RETAILERS—BILLS OF MANUFACTURERS ON MERCHANTS.

TRADER bills ordinarily (though there are other classes) are representatives of sales, and arise at the point where a bargain for purchase of a commodity has been consummated, and the property in it has passed to the purchaser, who has given a written promise to pay for it. That promise to pay, in accordance with universal modern practice, is written on a brief document called variously a *note* or a *bill*.

Sometimes the promise is in the form of an acceptance of an order or direction to pay. It is then called a bill. But when it is a simple promise to pay, it is called a note, or more definitely, a promissory note.

These distinctions, however, are principally matters of form. The essence of all such documents, when legitimate and regular, is that certain goods have been bought, and that the purchaser has given written engagement to pay for them.

Now, when such documents are what they purport to be, and are given for *value received* (these words being of the essence of the *bona fides* of the document though not of its legality), the business of a banker in dealing with one of them is comparatively simple. He has, in the first place, to be satisfied that the signature of the maker or acceptor of the document is genuine. If the maker or acceptor is an officer of a company, he is bound to enquire whether he has authority to bind his employers by his signature. Being satisfied on the point, he will next scrutinize the document to see whether it is drawn out in accordance with the law. For the law in respect of these simple looking documents is more precise and more elaborate than it is with regard to almost any other documents involving a contract.

Byles on Bills of Exchange is a well known handbook. Yet, though containing hundreds of pages, it is so far from exhausting the subject that hundreds of cases have been argued and decided since it was written, the record of which would occupy many volumes more. The subject appears to be unfathomable, for new cases are constantly arising involving new considerations, based on new sets of facts, and demanding, if not new laws, new applications of those already existing.

The more abstruse points connected with notes and bills are matters for the consideration of a lawyer alone, and a banker, if he is wise, will

let his solicitor deal with them. But there are certain general principles which every banker ought to have, so to speak, "at his fingers' ends," viz., that the document shall *not have been altered* in any essential point; that is, as to *amount*, or *date*, or *time*, or the *person* to *whom* it is *payable*, or the person who *promises to pay*; also that it promises to pay a *specific amount* at a *specified time*, and *without any conditions*; also that it is properly endorsed. All these are of the essence of the document. It is not a bill that can be sued on by a banker if there is a failure in one of these respects, although the seller of the goods would always have the right to recover on his contract.

But a bill may be made in perfect accordance with the law, and the person who brings it to the bank may have a perfect right to transfer it, and yet it may not be a desirable document for him to discount. The person promising may not be what is generally called "good" for its amount; which brings up once more a commercial question whether the seller of the goods was wise in selling him so large an amount on credit as he has done.

It is a banker's business to keep informed as to the whole series of bills made by any one promissor standing in his books, to keep the total in mind, and to consider not the single document presented to him at any one time, but the amount of the whole of the bills made by this one person or firm that may be afloat. And this brings up another point of vital importance, viz., whether the bank's customer keeps *more than one* bank account. For in that case the banker will need to keep himself informed of the amount of bills made by the same party that are domiciled in another institution. Want of consideration on this point will result in constant misconception.

Let us suppose, for argument's sake, that the amount of the bills of a certain promissor in his own office is \$2,000. That figure will be before him whenever a reference is made to the bills of the party. He will recall the information he has on record respecting him, and applying that information to this specific amount will exercise his judgment accordingly.

But if the merchant who offers the paper has another discount account, he will, in all probability, offer the paper of the same customer in that quarter also.

Thus the very basis of a banker's judgment will be a misconception. For he is thinking of a credit of \$2,000; whereas, he ought to be thinking of some larger sum, viz., \$3,000, or \$5,000, or even more; and may awake to the true condition of things only when he is prevented from applying a remedy. For his own customer, i. e., the wholesale merchant, may fail, and his failure be due to the fact of his having given too much credit. Then, for the first time, the banker realizes the true position. The retailer who was considered perfectly good for \$2,000 is found quite unable to pay \$5,000 or \$10,000, and the merchant who has been con-

sidered prudent in crediting the retailer \$2,000 is discovered to have been rash and imprudent in trusting him double or treble the amount.

The question therefore of what is called in banking phrase "a divided account" is of the first importance in connection with the discount of customers' bills. It is even of more importance in connection with loans of money.

In a banking system like that of Canada, where branches are established at many points, a banker has also to consider whether his customer is carrying on business in more than one centre, and keeping a discount account at some other branch of his own, or some other bank. This, of course, is a matter for the consideration of those who from the head office of the bank have supervision over what is going on at the branches. But in general it may be said that it is not desirable for a customer to have a discount account at more than one branch, though he may, of course, keep another deposit account. And it is very undesirable, as a rule, for a customer who carries on business in two places to have bills discounted for him drawn upon his own firm in another centre of business. It is common, in these days, for large houses to establish branches or agencies in other cities; and it appears as natural at times for the central establishment to draw bills upon the branch representing goods shipped to it as for it to draw bills upon the purchasers of goods. But consideration will show that there is an essential difference between the two cases. In the one there is an actual transfer of property to an independent party, whose obligation to pay is a distinct contract; while in the other, the goods are only transferred from one warehouse to another, the obligation of the keepers of the second warehouse adding no strength whatever to the bill. The paper thus created differs in no wise from that which might arise if a firm had two warehouses in different streets of a city, and one warehouse drew bills upon the other.

All such paper will be classed by an intelligent banker not amongst his trade bills, but as *loans without security*. Such loans may be good or otherwise according to circumstances, but the documents are not trade bills.

But now, supposing the bill to be genuine, as bearing the real or duly authorized signature of the parties to it, and that it be properly drawn in accordance with law, the banker, bearing in mind the total amount that he is asked to discount of the same person, will have before him the fundamental question, whether the maker of the bills can be relied on to pay them. To the settlement of this question a banker will bring all the information at his command from outside sources, aided by his own experience of the same name in the course of an account, or in that of other persons. It not infrequently happens that a purchaser of commodities may deal with several houses in the same trade, all of whom keep accounts in the one bank, either at the head office or at some of the branches. The banker has thus a somewhat wide range of experience

and information at his command. A large Scotch bank may have a mercantile account in Glasgow, and discount thereat the bills of traders in different towns of the interior. But some of these traders may buy goods also in London, and their bills may be offered at the London office of the same bank. Thus, from two sources the bank can form a judgment as to the quality of the bills. The same principle will apply to cities in Canada, for it is common there also for retail traders to make purchases in more than one centre of wholesale trade. Thus, their bills may come under the review of a banker in any one of the centres where the head offices of banks are situated.

The same custom of buying from wholesale houses in other cities doubtless prevails in the United States. But American bankers have not the same facilities for discovery that the bankers of Canada have.

Almost every large wholesale firm has a circle of customers who, for various reasons, deal almost exclusively with it. The bills given by this class of customers will swell up to a much larger total than those of the average trader, and the attention of the banker will very naturally be given to them with corresponding care. For experience shows that the line of credit given by a wholesale merchant to a retailer of this class is very apt to be abused.

The retailer gradually acquires the habit not only of buying his goods from the merchant, but of leaning upon him financially, looking to him for help in emergencies, expecting help when he has not the wherewithal to meet his bills; in fact, practically making the merchant his banker. In such cases it is not uncommon for a merchant to hold security, which security may, or may not, be strictly applicable to the paper held by the bank. Such security may be for an open account, or a balance due over and above the notes given for goods, in which case the banker would derive no benefit from it in case of failure.

When the amount of a retail customer's paper swells up beyond the average, it will always be wise for a banker to ascertain what is his total indebtedness to the merchant; and, supposing he has given security, what is the nature of it, and the terms on which it has been given. And if an account begins to show unfavorable features, it may be desirable to have the security transferred.

It is in connection with customers' paper of this kind that the danger of a divided account becomes manifest. For, in that case, it is certain that the bills of the customers who owe the largest amounts will be divided between two or more banks. The result is that an excessive credit is apt to be concealed or overlooked. The banker, having before him a statement of the account of a certain customer, may not notice what he would consider an excessive amount under one name. And though he may have been informed that there is another bank account, he does not always recollect at the moment that the amount he has before him is not the true total. But if the whole of the paper of the retailer

were in his own hand, he would at once be struck with the amount as excessive, and take measures accordingly. He would almost certainly have refused to discount so large an amount of paper at all, and thus have rendered his customer essential service. Or if inadvertently so large an amount had been allowed to creep in, he would require reduction or security, putting the customer on his guard by such action, and indicating to him that the account of his debtor was becoming dangerous. When a wholesale firm has failed, the failure has often been brought about by excessive credit given to a small number of customers whose paper has been distributed between two or three banks.

Remarkable instances of this kind have been known in the experience of Canadian banks. The failure of a wholesale firm has revealed more than once an amount of credit as having been given to certain retailers that was simply appalling, and which could never have happened if all the bills had been domiciled with one banker. The same danger arises in the United States when bills are sold to bill brokers in New York, as well as discounted at a merchant's own bank.

The discounting, then, of customers' bills by a banker is not so simple a matter as might be supposed.

The note, say, of John Thompson to McGregor & Co. for \$500 may seem to be a good bill, and the risk of discounting it a mere nothing. But if the banker has already discounted Thompson's paper to the same firm for \$5,000, the question whether he shall take \$500 more is a different affair. If the banker has also in his bill-case, Thompson's paper to Williamson & Co., the affair is more complicated still. If in addition, McGregor & Co. keep an account with another bank, and have under discount there more of Thompson's paper, amount not known, the question of the \$500 note has an aspect that a casual glance does not begin to reveal. Still further, if in addition to all the notes, the banker is aware that McGregor & Co., and probably Williamson & Co. as well, have an *open account* against Thompson, the considerations with regard to that one note may well be of such a character as to make him take a long time to deliberate about it.

Yet this is a fair specimen of the manner in which much of the discounting of customers' paper has to be conducted. In every case, the consideration has to be of the *total amount of the same name* in the banker's possession, then of the position of the maker, then that of the merchant himself, then of the total amount of the latter's whole discount line; and also, if he is known to have more than one account, the amount and character of the liability under that.

It might be thought that if such complicated considerations present themselves with regard to every note offered, the time necessary to comprehend them would prevent any discounting being done at all. But a banker who understands his business and gives close attention to it, acquires a sort of instinct, which, aided by accurate information periodi-

cally placed before him, enables him to deal with such matters promptly and without wasting either the customer's time or his own.

But such a habit of close attention is absolutely necessary to efficiency, and not less is the habit of constantly consulting his records and of arranging the summaries of his customers' discounts so that he may be able at a glance to see how each of them stands, and how much paper of each retailer is generally offered by mercantile customers.

The foregoing observations largely refer to the notes generally offered by importing merchants. But when such merchants have established a character for prudence and attention to business, and are known to have sufficient capital, it is common for the banker to "pass" such paper as is offered without special scrutiny of the names *at the time*. Indeed, it may fairly be said that a merchant has never established himself on a proper footing with his banker until the bills he offers can be passed at once. This, however, can only be the case where a bank has the whole account.

But for all that, the paper will come under periodical review, and a judgment will be passed upon the names which compose it, in those summarized statements which are presented to the banker by his officers, which statements are almost of as much importance to him as the compass is to the captain of a ship.

There are other classes of trade bills than these, such, namely, as arise in connection with manufacturing industries and require to be judged by different rules. The relation between a manufacturer and the purchaser of his goods is often of an entirely different character from that of a wholesale merchant and the retailer.

In transactions between a wholesale merchant and a retailer the former is generally the more important person. But when the manufacturer sells to the wholesale merchant, it is not infrequently the case that the purchaser has a far larger capital than the seller.

Included in the category of manufacturers is the large class of owners or operators of flouring mills and saw mills; though, as has been observed, they are sometimes not thought of as manufacturers at all.

Many of these mills are small concerns, yet they occupy a most useful place in the industrial development of the country. Such as these will have as purchasers the large merchants of central cities, whose reputed wealth and standing give them a position much beyond the persons from whom they buy.

The bills of houses of this kind are generally esteemed by bankers as of a choice character; for they are, as a rule, short, and as a rule, paid at maturity. If a wholesale merchant were to desire a renewal of any of his obligations, his credit would be impaired at once.

The bills drawn by a saw miller in Canada upon lumber houses in the United States are often of a high quality, yet a banker will need to keep

himself advised from time to time, and especially from season to season, of the operations of such houses.

The bills of woolen and cotton mills upon dry goods and clothing houses are of the same class as the last. They, as a rule, are promptly paid, for the reason just assigned. In fact, their regular payment is sometimes the reason why a banker is deceived by them. The wholesale merchant must pay his obligations promptly or stop payment altogether. Thus, when such a house does stop payment, it is usually without any premonitory symptoms, such as the asking for renewals, or letting an acceptance occasionally be dishonored.

BILLS DRAWN AGAINST CONSIGNMENTS OF GOODS.

There is, however, a class of bills, which, though having the appearance of customers' paper, and being generally classed as such, does in reality take its rise from different circumstances altogether.

The ordinary trade bill represents a purchase of goods. But in some cases, as has been shown in an earlier chapter, a selling agent is employed in large cities who receives goods as a purchaser would do, and accepts bills against them in favor of his manufacturing correspondent. These bills naturally run up to large amounts; in fact, to the whole sum which the bills of a number of purchasers would have done had sales been made direct to them. The arrangement saves the manufacturer much labor, for instead of drawing on a multitude of traders, he only draws upon a single agency house.

But it is obvious that the risk is heavy, for in case of misfortune to the agent, the manufacturer becomes a creditor of a bankrupt estate to such an amount that he may be landed in bankruptcy himself. These bills, however, are of an exceptional class, for the property in the goods against which they are drawn has not passed to the drawee.

The bills drawn by a flour miller or pork packer upon a consignee against goods sent for sale are a variety of the same class. If drawn against merchandisc, a banker would look on them with considerable favor, objectionable as the practice of consigning is, so far as the owner is concerned. But it is not uncommon for such relations to be established between consignor and consignee that the latter will sometimes accept bills before goods are shipped, and for this, in time, to degenerate into a practice of drawing without reference to merchandisc at all. When matters have arrived at this shape, it may be assumed that both parties are pretty far on the way to insolvency. Yet the consignor's banker may not find it out until both parties fail, and the true character of the paper is revealed.

The only safe mode of dealing with bills drawn against staples like flour, grain, pork, or similar articles is to require a bill of lading to be attached to them. This, in fact, has now generally come to be the case; the only question being whether the goods shall be to "order" generally,

or to the bank's order, or to the order of the purchaser or consignee. In the latter case the bill of lading gives no practical security, except to insure that the bill is drawn against merchandise. In the two former, the purchaser cannot get the goods without the bill of lading, and it is for the banker to say whether he will give it up on acceptance or retain it until payment. The last is the usual course. But the drawee may refuse to accept, in which case the bank has the goods as security. What he shall do with them is generally a matter of arrangement with the drawer.

ACCOMMODATION BILLS.

There is, however, a class of bills which have generally been known by the appellation of "accommodation," but which, as will be shown, ought properly to be designated by a severer epithet.

For such bills, as a rule, are the expression of a written falsehood. It is not essential to the legality of a bill to append the words *for value received*, for which reason the words are not found in every bill that is drawn. But it was once universal, and it is almost universal now. The practice is founded on the reason of things; viz., that the promise to pay, or the acceptance of an order to pay, should be a warrant to any man who is asked to give cash for the document, that a genuine transaction is at the bottom of it. That the maker owes the money, that he has received value, raises a strong presumption that he will pay the bill. This is the natural order of things, and it is this that gives a value to the bill it would not otherwise possess. For unless the maker becomes bankrupt, it is certain he will endeavor to pay the bill. But if he does not owe the money, he may do all that is possible to avoid payment. Thus the words "for value received," though not essential to the legality of the bill, are important as bearing on its *genuineness*.

It consequently follows that these words, if used on a bill which is not founded on a debt owing by the party that made or accepted it, are a written falsehood. The document therefore is a fraud. Even if the words are not there, when the bill has the form and outward character of a bill representing a business transaction, when there is no such basis for it, the bill, if passed at all, will be passed on false pretences.

In banking practice there are found to be various descriptions of notes of this kind, which differ considerably from one another.

A merchant, for example, when sales are slow, and bills are scarce, and having payments impending which he must meet or lose credit, will sometimes ask one of his customers to make a note or accept a bill for a larger amount than he owes. In this case the merchant will probably promise to send goods at a future day to cover the extra amount. The bill will, in such a case, be partly genuine and partly fraudulent. But the words for value received, should they be written on the bill, will be wholly false.

Such bills as these are perhaps more dangerous than those which

have no business foundation at all. It is almost impossible for a banker to detect the fraudulent element, seeing that the bill is made by a trader known to have dealings with the house. It would be difficult for a merchant to obtain such a bill from a man who owed him nothing at all; and if he did, a banker would more easily find it out. If such a practice therefore is entered on, it is generally with a customer who has regular dealings with the house, and is in the constant habit of giving them bills in settlement. The practice, however, is a very dangerous one for the merchant himself. The single instance affords so ready a mode of obtaining money that there is a constant temptation to continue it. Like other evil habits, this is apt to grow by indulgence, it may therefore come to pass that there is a constant (but fluctuating) element of fraud in the whole line of this merchant's discount. If indeed the merchant informed his banker of the real state of the case; if he advised him, let us say, that of the bills he offered for discount a certain amount, twenty per cent., thirty per cent., or otherwise, did not represent business transactions, he would be relieved from the charge of fraud. But we can scarcely conceive of the merchant having the coolness to do it; and if he did, of the banker being simple enough to go on discounting the bills. The banker's proper reply would be this: if you have need of more money than could be provided by genuine bills, let me know the amount you want and whether you can give me security for it; and if security, *what* security; or whether you want me to make a temporary advance without security at all. We should then understand one another, and all would be fair on both sides. But for me to go on discounting so-called commercial bills that have a taint of fraud in them would be to become a party to the fraud myself.

There are, however, bills of this character which have the element of fraud outright. Bills have been offered to banks and have been discounted to considerable amounts which rested on no business transaction whatever. Commercial firms in great business centers having high credit and standing have been found capable of concocting and carrying forward for years schemes of deliberate deception with their bankers, like the following. They would arrange with a number of small traders in various parts of the country to accept bills drawn upon them, although no business transactions whatever had passed between them. A consideration was given in such cases; and the bills were always carefully seen to at maturity by the negotiating house. It was by a perfect network of arrangements of this kind that the great wholesale firm of Macdonald & Co., of Glasgow, managed to deceive the Western Bank of Scotland, and to keep themselves afloat long after they were insolvent. The amount involved in the deception was enormous (some £408,000), and when the bubble burst, as it could not fail to do, it had much to do with the stoppage and ruin of the bank itself.

It may be said without a carping style of criticism that the officers

of the bank might surely have discovered what was going on before the situation became dangerous.

Another instance of the same kind was in the case of a great house in the Leather trade, who with headquarters in London, had established a network of branches and correspondents by means of which an enormous amount of bills was kept afloat far beyond the actual business transacted. When the firm failed it was found that no less than twenty-nine of these "drawing posts" had been made use of, and that the fraudulent bills amounted to no less than £620,000! In this case a certain amount of real business was done with some of the corresponding houses, giving color to the bills offered for discount. It is evident, however, that in this case, a vigilant style of doing business would have discovered the fraudulent character of the operations carried on. So far, however, was this from being the case that the London bank where the account was kept carried on the discounting operations of the firm in such a reckless manner as to raise the imputation that the manager was a *particeps criminis* in the affair. He was on such terms of intimacy with the partners of the house that a sort of *slang-talk* was current between them, according to which a small batch of bills was called a *teaspoon*, a larger batch a *dessertspoon*, and a batch of considerable amount a *tablespoon*. In the examination before the bankruptcy court, it was revealed that the manager of the bank had been in the habit of sending over to the firm, asking whether they had any bills to discount, thus grossly violating all natural order, and letters from him were produced in court such as the following:

My dear M.:

We are flush this morning. Send me over a *tablespoon*.

Yours,

A. B., *Manager*.

If ever in the dealings of banker and customer there was a downright incentive to extravagance and fraud it was offered in this instance.

It cannot be wondered that the bank itself had only a short career. It was regularly organized, and had the ambitious title of The Bank of London. But it ran only a short career and was wound up in disgrace, with a heavy loss to the stockholders.

CHAPTER XXI.

FOREIGN BILLS.

BILLS WITH DOCUMENTS—OTHER CLASSES OF BILLS—DRAWING OF
FRAUDULENT BILLS—BILLS DRAWN AGAINST FUTURE SHIPMENTS—
STERLING BILLS OF BANKS AND FINANCE HOUSES—THE BARING
CRISIS RECALLED.

THE bills drawn upon Great Britain or other countries against goods shipped there are in a different class, so far as bookkeeping is concerned, from the foregoing, being drawn payable in sterling or other foreign currency, and necessitating a different style of treatment in a banker's books. But they are essentially the same in effect as bills drawn upon some commercial centre in the country. They represent, or should represent, either purchases of goods, or goods sent on consignment. They are subject to the same risks of non-acceptance or non-payment, saving only the fact that there are attached to a large proportion of commercial bills of exchange what are called *documents*, viz., bills of lading and policies of insurance, which are transferred to the bank, and which are held as security until the bill is paid.

It was at one time a sort of superstition amongst bank officials that a bill drawn in sterling, payable in pounds, shillings, and pence, was, by that fact a safer document than a bill drawn in dollars and cents. There was some ground for this opinion in the fact that it was not so easy for accommodation paper to be manufactured payable in sterling money as it was when the note was made by persons in the same town. At one time, when the Canadian law imposed heavy penalties on the dishonor and return of a sterling bill, it would have been a serious business for any one to concoct accommodation paper payable in London. These penalties have been largely done away with. Yet it is still much more difficult to float accommodation foreign bills than inland. It has, however, been done.

There are several distinct classes of bills drawn payable in sterling or other foreign money, viz., commercial bills, banker's bills, bills drawn by finance houses or other corporations upon their agents, and bills drawn by governments. It is of the first of these that the present chapter will treat.

Commercial bills, properly so-called, payable in sterling or other foreign money, are drawn by the seller or consignor of exported goods on the purchaser or consignee on the other side of the Atlantic. Of these there are several varieties, and the risk to the banker dealing with them varies greatly.

BILLS WITH DOCUMENTS.

It has become customary of late years in several of the larger branches of the export trade for the exporter to secure himself from loss by attaching bills of lading and policies of insurance to his bills. These documents are so drawn that the goods shipped cannot pass into the possession of the purchaser until he has paid the bill (if he has accepted it). If he fails to pay, or refuses to accept it, the banker who has bought the bill, in addition to his claim against the drawer, acquires property in the goods, and can sell them as the law may allow, placing the proceeds to account of the bill. The drawer is then liable for the deficiency, if any.

It might be supposed that this proceeding would make a banker so safe that the purchasing of such bills would become almost a mechanical operation, requiring neither knowledge nor good judgment. But experience dissipates this delusion. Every banker who has had to do with bills of this class is aware that the same considerations arise with regard to them that are needful with inland bills. To begin with, he has to consider the character of the shipper, both as to honesty and capacity. As to honesty; for the bills of lading may not be genuine. Instances have been known of forged bills of lading being attached to sterling bills, and heavy losses suffered by the bank purchasing them.

But supposing the bills of lading to be genuine, they may be very insufficient security for the bill to which they are attached. For the shipper may have only an imperfect knowledge of the merchandise he is shipping, and sends across the Atlantic goods which no prudent merchant will accept against. Or the shipper may be of that sanguine temperament which invariably leads him to think his goods worth more than they are, in which case his bill is drawn for too large an amount. In both these cases the bill is liable to be refused acceptance, and the banker may find himself with the goods upon his hands which the English merchant, on the spot, considers not worth as much as the bill. Then ensues one of the most unpleasant of all a Canadian or American banker's experiences, viz., the bringing to sale, in a distant market, of goods which are stamped as undesirable by the very fact of their being in the hands, not of a merchant, but of a bank. The goods must be warehoused and insured. Charges begin to accumulate. A broker must be employed. The goods are offered for sale, but naturally purchasers are shy. Offers are made which are, perhaps, forty per cent. less than the amount of the bill. If the offers are accepted, a loss more or less is certain. If they are not, the banker takes the risk of the market. A rise will bring him out; a fall will increase the loss unless the drawer can make it good. The holding of goods becomes therefore a speculation; meanwhile one thing is certain—that charges are increasing.

But the banker has another party to deal with in these cases, viz., the shipper of the goods, who is his own customer.

It is not an unknown experience that he intervenes respecting the sale, refusing to consent to the goods being disposed of at a lower price than will meet the bill. Always sanguine that the market will turn in his favor, he constantly objects to sale at such a figure. If this does not turn out to be the case, and the banker exercises his legal power and sells the goods at a sacrifice, the drawer will be apt to contend that his goods have been slaughtered, and resist a claim for the deficiency. Thus, even with documentary bills, as they are called, a banker may have, and many a banker has had, not only much harassing anxiety and labor, but much ultimate loss. For, in some cases, the overdrawing arises from impending embarrassment; and then non-acceptance of the bills is a prelude to failure.

From all this it follows that the character and standing of the drawers of documentary bills should be as carefully considered as if no documents were attached.

This is particularly the case when, as sometimes happens, the drawer desires the documents to be *given up on acceptance*. If this be consented to (and both the shipper of the goods and the banker must consent), the bill will rest entirely on the credit of the parties to it. There is, however, this difference between such a bill and one which never had documents attached to it at all, viz., that whereas the latter may have been merely *affirmed* by the drawer to represent a shipment, the documents attached to the former, if genuine, afford absolute proof of it.

The bills to which documents are attached are chiefly those in the grain trade, the cotton trade, and the trade in dairy and other food products.

Bills without documents offered by persons in these branches of business should be drawn against balances that have accrued, and the banker should be satisfied of this before buying them.

OTHER CLASSES OF BILLS.

But large numbers of commercial bills are drawn by firms in other branches of business, which being, as a rule, unaccompanied by documents, must be cashed on the credit of the drawer alone. At the time such a bill is cashed it is a bill with only one name, and the banker has to take the risk of its being accepted.

Bills in the timber trade, the leather trade, and bills drawn against manufactured goods are usually of this class.

The name of the firm on whom such a bill is drawn matters not in the least at the outset; for any man can, if he pleases, draw a sterling bill on any other man for any amount. John Smith, let us say, is carrying on a small business in a lumber centre in Canada. He can, if he chooses to commit a fraud, and to expose himself to the consequences, draw a bill for ten thousand pounds upon the wealthiest timber merchant in England. And he can offer it to a bank manager, telling him that it is drawn in

course of business, and will be accepted on presentation. The banker knows that the house on whom the bill is drawn is abundantly good for ten thousand pounds, or ten times as much, and can scarcely help being influenced by the sight of such a powerful name, though it may be that the drawer has no more right to use it than he would have to draw on the Bank of England for a million.

The banker has therefore to consider, when a sterling bill is offered, unaccompanied by documents, whether his customer is likely to have dealings for such an amount with the English house; whether he has ever known of transactions between them, whether the course of his business lies that way; and, in fact, whether he ever had the right to draw a sterling bill upon anybody. By such reflection and queries he will easily be able to satisfy himself whether the transaction is genuine and the bill likely to be accepted. But such things have been known as for a banker, possibly a young beginner in the responsibilities of management, being persuaded to give cash for a fraudulent foreign bill, in which case he will have a rude shock of awakening on learning that the bill has not been accepted, and never will be.⁴⁹

The example in the accompanying note is adduced to show the necessity of only buying "free" bills when written authority to draw is shown, or in the case of commercial bills from houses whose relations with the drawee are such that no bill is likely to be refused acceptance. And such houses there are, firms that have drawn millions of pounds sterling of bills in the course of their business of which not one has ever failed of being honored.

THE DRAWING OF FRAUDULENT BILLS.

Yet the history of Canadian banking has furnished singular instances of fraudulent bills being negotiated by houses of apparently good standing.

Some years ago a house in the timber trade in a certain part of Canada, which had conducted its business soundly for a long course of years and had established itself in good credit, became embarrassed, and to keep itself afloat set on foot a system of drawing free bills from various centres where it professed to do business. The house opened

⁴⁹ A case is known to the writer where a new-comer to Canada, moving in the best circles, who had made arrangements to enter into partnership with a manufacturing house, induced a banker to cash a sterling bill for about four thousand pounds, alleging that this amount was coming to him from his father's estate, and that the legal firm on whom he drew had authorized the bill. But they refused to accept it, alleging that the estate was in no position at the time to meet such a demand upon it. The banker indignantly demanded payment from the party who had sold it, but he was entirely unable to refund. The proceeds had gone into the business, and he could not get them out.

This was not a case of obtaining money under false pretences, for he honestly believed he had the right to draw. But more than two years elapsed before the estate was able to pay the money, and during the whole of this time the banker had to return this protested bill in his statements to head office.

offices at several additional points in Canada, Montreal being one; also in Boston and New York. These were all in correspondence with an agency or branch house in Great Britain. Different names were adopted for these firms in order to carry on the deception, but the original names, both in Canada and England, were of firms of weight and standing, and a considerable amount of actual business was done.

The machinery once started, and credit established, the leading spirit of the concern, a man of experience and great plausibility, found no difficulty in obtaining cash for the bills he drew. Some of these were bona fide, and were paid in the ordinary course out of sales of timber—a circumstance which added to the danger. Thus, credit was kept up. But the actual trade of the concern resulted in continuous loss. The losses, however, were easily met by the proceeds of new bills, some of them negotiated in Montreal, some in Boston, some in New York; such proceeds being cabled over to London and applied in payment of maturing bills or deficiencies in sales.

Upon a small foundation of actual business was raised a huge superstructure of fictitious drawings, which were so cleverly managed that various bankers and finance houses both in Canada and the States were deceived. This clever operator would sell a genuine bill at one time and a fictitious bill at another; a fictitious bill to one bank and a genuine bill to another, transferring the proceeds of a bill sold in Montreal to Boston and buying a cable transfer therewith, reversing the process the following week, or changing Boston for New York.

These were all free bills, drawn under different names, and on apparently different houses in London. Yet the whole circle was in reality but one concern, the affair being wholly in the hands of one man. Many subordinates co-operated with him, both on this side of the Atlantic and on the other, most of whom were entirely ignorant of the real character of the operations they were helping to carry out.

The bubble, of course, burst in time. The leading schemer took care to be out of the way when the bills came back, but sundry banks and bankers shortly found themselves possessed of large claims on a bankrupt estate of which the assets were undiscoverable.

One device of those who aim to get sufficient credit to enable them to sell free bills is to commence a bona fide business under some high sounding name, such as Cameron, Bosanquet, McGregor & Co., the very name suggesting wealth and capital. After a few months of genuine business, during which drawings are promptly paid, their bills become sufficiently known on the market to enable them to offer them in various banks.

Probably, as they proceed, they may adopt a cunning method of supporting their credit, by refusing to take any but the highest price for their bills, and withdrawing them from the offer, thus creating the impression that they have abundant means at command. Thus the bills

acquire a character and are readily purchased, the regular operation of the house lending color to their genuineness.

The time comes at length for a great *coup*. Simultaneously a number of bills are drawn, offered to all the banks who will take them, and sold. Then, on some morning later on, the community is startled to find the office closed and the partners fled the country. Some banks shortly after have numerous batches of worthless protested bills in their possession.

This, or something like it, has actually occurred in Canada, and it is always liable to occur when the free bills of a commercial house can be easily negotiated with banks who are ready to buy them in entire ignorance of the total amount afloat. It is a good rule, in such cases, for a bank to determine that it will take all or none; and, if all, then for undoubted reasons; the only exception being when the drawers are of known wealth and whose business is of such a magnitude as to justify the domiciling of their free bills with various banks.

RELEASING DOCUMENTS ON ACCEPTANCE.

When the question of giving up documents on acceptance is raised, a banker will be careful to have the permission of his own customer on this side before consenting to it. And this permission must be a written one, for nothing would be more likely to create difficulty in case a bill was dishonored than a failure to establish consent.

To give up documents without consent would, of course, release the drawer from liability.

In some cases a drawee will request documents to be given up in exchange for a banker's or broker's guarantee. The guarantee of a bank, as banks are now in Great Britain, is about as good security as can be conceived.

But of *brokers* there are numerous varieties, from wealthy firms of unlimited credit, to the smaller class who are hardly good for a thousand pounds. In the case of these, a banker on this side, and his customer with him, are generally guided by the judgment of their banking correspondents on the other. And it is to be said that they exercise the discretion committed to them with remarkable prudence. Cases have not been infrequent where a bank in one or other of the great ports of Great Britain has exercised this discretion in multitudes of cases during many successive years, and to the amount of many millions sterling, without once making a mistake.

BILLS DRAWN AGAINST FUTURE SHIPMENTS.

There is another class of bills which, though not drawn against shipments actually made, are sometimes classed as "commercial," inasmuch as they are drawn against goods that are *to be shipped*. In the complicated arrangements between merchants of different countries, it is sometimes the case that a house in London or Liverpool will agree to

accept bills for a drawer in consideration of goods to be shipped hereafter.

Such arrangements, of course, argue a very high degree of confidence, which confidence may be well placed or misplaced. This, however, is not altogether the concern of the banker on this side, whose business is simply to be satisfied that such an arrangement exists, so that he may be sure that the bills he buys will be accepted. Sometimes this is secured by an engagement in writing, either special or general, that is, either to accept all bills that may be drawn, or to accept bills for a certain amount and during a certain time.

It is, however, not uncommon for an exporting merchant on this side to be so well established as to capital and reputation that his bills can be negotiated without any engagement to accept being required. In that case, however, a banker on this side requires to keep himself particularly well informed as to the condition of *both* houses concerned. For changes in these times are rapid. Partners die, and capital is drawn out. New partners are introduced who change the whole style of the business; it may be for the better; but possibly for the worse. And a strong house, in these times of huge operations and speculation, may lose their whole capital in a year. It is thus incumbent on a banker who buys such bills to be satisfied in the first place that the former relations between the parties still exist, and then that the house on the other side is as good as ever.

The only other class of commercial bill to be noticed is that where a commercial house has offices on both sides of the Atlantic. A manufacturing firm in Canada may have an agency in England, and a resident partner in some large centre. The name of the firm will probably be changed in that case; the Brown, Jones and Robinson, of New York, becoming the Jones, Brown & Co., of Liverpool. But the responsibility is the same.

The banker in all such cases has constantly to bear in mind that his bill is a one-name bill and nothing more. In fact, such bills have a strong tendency to degenerate into accommodation bills based on nothing.

STERLING BILLS OF BANKS AND FINANCE HOUSES.

This is a class of bills well known in all exporting centres, and it forms the great medium of remittance by importers on this side the Atlantic.

It is one of the most noticeable developments of the financial operations of modern times, that foreign bills of exchange are dealt in exactly as a merchant deals in goods. And just as the merchant is a necessary factor between the buyer and seller of goods, so is the bank or finance house between those who draw bills against commodities exported and those who desire to pay for commodities imported.

When a merchant ships a quantity of grain, cotton or any other staple across the ocean, he has the power to draw a bill of exchange

against it. In a primitive condition of things and if the community in which he lives is a small one, his neighbor who has bought goods abroad and desires to pay for them, might approach him and say, "If you will draw a bill for a thousand pounds against that cotton you shipped, I will give you the cash for it. For I want to send that amount to England." Thus, by direct dealings between the exporter and importer the wants of each might be satisfied. But this mode of operation would not differ much from dealings by barter, in the case of merchandise. For the exporter would always find it difficult to find persons who wanted the exact amount of the bills he had to draw against his cotton, while the importer might find that the exporter could not draw for as much money as he required to send; or at the time he wanted to remit, for anything at all.

There thus arose the necessity for an intermediate, a person with command of money, who would buy the exporter's bills at any time, without reference to the amount, and would be ready to sell his own bill to the importer, to whatever amount would satisfy his requirements.

Before this could be done the intermediate would require the services of a corresponding house abroad; and particularly in London. This house might be a banking house of the old school,—like the Glynns,—or a financial house like the Barings used to be; and the arrangement would be, that the intermediate, on this side, would remit to them the bills he had bought from the exporter and draw upon them the bills he would sell to the importer. These the London house, or bank, would agree to accept, on terms arranged. This, stated in its simplest form, is the foundation of the great masses of bills that are constantly being drawn by bankers and finance houses on this side, on bankers and finance houses on the other.

It will be perceived that the foundation of this business in its elemental form is the EXPORT OF GOODS, in which term, as will be seen later on, more than merchandise is included, the bills drawn against which are sold to a bank on this side, the payment of which bills affords the means of payment of the bills drawn by the banker against it. Thus, all these bankers' or financial bills rest, if legitimate, upon the foundation of salable merchandise or securities, exactly as all legitimate bankers' loans and trade bills do.

The export of articles, therefore, gives rise to two classes of bills: first, the bill drawn by merchant upon merchant, and then the bills drawn by banker upon banker. This has the appearance, at first sight, of that objectionable operation, the drawing of sets of accommodation bills; the first set drawn against goods and having a mercantile foundation, the other drawn against nothing. The sale of the cotton will provide the means of paying the first, but out of what fund is the second to be paid? How can the sale of so many bales of cotton of a certain value pay more than one of the bills drawn against it for that amount?

A consideration of the facts will, however, show that this supposition would be erroneous.

What takes place is really this; a merchant in New York sends over to a Liverpool merchant a quantity of cotton, worth, let us say, a thousand pounds. Against this cotton he draws a bill for a thousand pounds. This bill is simply an order to the Liverpool merchant to pay a thousand pounds to the person who will present that bill. But what becomes of the bill? In the ordinary course of business a banker in New York buys it, pays the exporter a thousand pounds for it (less exchange) and obtains the right to collect the same amount in Liverpool. Having that document, giving him the right to receive a thousand pounds in Liverpool, he sends it over to his correspondent in London, directing him to collect the money and place it to his credit. When the Liverpool merchant pays the bill and gets it from the London banker, that banker will have a thousand pounds of the New York banker's money in his possession. How is the latter to get it? He can, if he pleases, write a letter ordering it to be sent over in gold packed up in a box; which indeed is sometimes done. But a much simpler process than that is available, and a much more useful one, for it subserves the needs of the other side of commercial operations. The importer has his wants as well as the exporter; viz., to *send money* over to Europe to pay for goods. But in modern financial arrangements there is no need for him to send a box of gold. He can go to the banker who bought the exporter's bill and get an order for his London correspondent (who is collecting a thousand pounds for him) to pay that sum to the importer's correspondent. This order is that second bill of exchange just referred to, which the importer remits and with which he satisfies his obligation. (This second bill, let it be noted, is drawn not against the cotton, but against the money lodged in the London bank.) Thus, the whole operation is complete, and all accounts settled without the transmission of gold at all. The New York exporter gets the money for his cotton from the New York banker. That banker is recouped by selling his bill to the importer. The London banker, as the final intermediary, *receives* the money from the Liverpool merchant and therewith *pays* the bill, which his New York correspondent has drawn upon him. Thus, although two bills have been drawn, they have not been drawn by the same person upon the same drawee, but by different parties upon a different correspondent and to effect a different purpose.

And the proof that the second bill is not an accommodation one is that both of them have been paid without the borrowing of money in London. If the second bill had been drawn against nothing, there would have been nothing wherewith to pay it. But, as we have seen, the London banker had the money in hand. At the close of these transactions none of the parties owed the other anything; whereas, if the London banker had

paid an accommodation bill for a thousand pounds, the New York banker who drew it would have owed him the amount.

It is, however, to be borne in mind that merchandise is not the only exportable article that can be sent for sale to a financial centre and drawn against. In these days of highly developed financial business, when government and other loans are negotiated through financial houses in London or Paris, the debentures representing them are sent forward, and drawn against exactly as if they were so many bales of cotton or barrels of flour. The bills are sold by the borrowing government to bankers or capitalists in a financial centre, who forward them, along with the bonds, to their London correspondents. These bills are accepted by a London financial house, who pay them out of the sale of the bonds. In this manner, loans to the extent of hundreds of millions are carried out, without any movement of gold, exactly as is the case with mercantile transactions.

In like manner, when a great railway corporation has need to borrow money in Europe on its bonds, they are sent across and drawn against as if they were merchandise. The acceptors of the bills in London or Paris take the risk of floating the bonds and accepting against them.

THE BARING CRISIS RECALLED.

But as these bonds have been treated exactly as if they were merchandise, it has happened that embarrassments have arisen in connection with them, just as embarrassments arise in consignments of staple goods. A catastrophe on an immense scale, in connection with acceptance against bonds was only averted some years ago by the courageous and far-sighted action of the Governor of the Bank of England. The case was that of the great house of Barings; it occurred in the last decade of the nineteenth century, and created a sensation all over the financial world. It was indeed so extraordinary as to be deserving of permanent record. The house of Baring Brothers had been known for a century as negotiators of government loans for states and countries in every continent on the globe. Their character for prudence and judgment was so high that for generation after generation any bond on which they placed their imprimatur was accepted by investors and found ready sale. Time, however, passed on. Old partners passed away; new men and new methods were introduced, corresponding to new developments in modern times. The name of the great house was of course retained, for it was a synonym of wealth, almost equal to the name of Rothschild. Yet, notwithstanding all the changes in the personnel of the firm, the commercial world in general considered the House of Baring to be as good as ever, and bought its bills as readily as they would those of the Bank of England.

But about the time spoken of it became known in the inner financial circles of London that the Barings had negotiated loans to an enormous

amount which they found difficulty in placing. This was especially the case with loans to the Argentine Government. The debenture market in fact had become overstocked with them; yet the Barings had accepted against the whole, and the bills were constantly falling due. These acceptances were met for some time out of other resources of the firm. They were able also to borrow large sums of money on the bonds. All this was whispered about among the higher magnates of Lombard Street, and the whispering gradually spread even to circles on this side the Atlantic. Such a thing as hesitating to buy the bills of Baring had never been heard of in New York, but such a hesitancy did undoubtedly prevail for some time.

At length a very extraordinary event happened, the like of which had never been known in the financial world. A few of the heads of the leading banks of London were invited one day to meet the Governor of the Bank of England, and confer with him on a matter of importance. What this matter was they could not divine; but on entering the bank parlor, they were informed of this very extraordinary state of facts, namely, that the Barings were under acceptance of bills, mostly drawn against Argentine bonds, to the amount of *sixteen million pounds*; that the bills were coming due at the rate of about a million pounds a week; that the Bank of England had already made large advances on the bonds; that it was quite impossible for the Bank to carry the whole burden; that if assistance were not rendered, the Barings would have to suspend and millions of pounds of bills go to protest! A tremendous piece of intelligence this; for these bankers knew that if such an event did happen there would be one of the severest panics ever known in the financial world, and that not in England only, but in the United States and every great monetary centre of Europe.

On the bankers enquiring what the Bank of England had to propose, they received this answer: the Governor informed them that, after consultation with his colleagues, they had concluded that other banks might fairly be asked to share in the burden of meeting the acceptances, inasmuch as they were all interested in preventing a panic, and many of them were themselves holders of the Baring bills.

After much consideration, and consultation with others, it was finally concluded by London bankers, including the representatives of the Scotch banks, to acquiesce in the division of the burden. It was also suggested, that some of the leading banks of the interior, such as those of Liverpool, Manchester, and other cities, might fairly be asked to join in the movement. This idea was acquiesced in, and correspondence opened with the leading provincial banks. These also agreed to the principle. The only thing now remaining was to arrange the amount of the advance which each bank was to make upon the bonds, and to such an extent did a spirit of mutual respect and confidence prevail amongst these magnates of *haut finance*, that a distribution was made without difficulty.

The Bank of England undertook by far the largest share of the burden. Then the London banks, including the agencies of Scotch and Irish banks, followed with their respective shares, and finally the great banks of Manchester, Liverpool, and other prominent centres. The Bank of England undertook to see after the retirement of the whole of the acceptances, and the other banks paid in their quota to the Bank of England to enable the Bank to do it. When these arrangements had been completed, every banker in the United Kingdom breathed a sigh of relief, seeing that the shadow of an impending panic which had overhung the financial world was dispersed, and that business could go on as usual. And not only they, but bankers in great centres of North and South America, India, China, and Australia—not to speak of the Continent of Europe—also felt easier when the dreaded possibility of the Baring bills being returned upon them, protested, for tens and hundreds of thousands of pounds, had passed away.

As for the great house itself, it went into liquidation. A considerable surplus of assets remained to the partners, after the liabilities were all discharged, but the prestige of the name of Baring was permanently impaired. The partnership was dissolved, and a new company formed, of large capital, which is doing the same kind of business, but which, we may be very sure, will never overload itself with unmarketable securities.

It has been stated that the bills drawn by banks on their foreign correspondents have their foundation in exports. This is true, in a large majority of cases. It is, however, not uncommon for banks and capitalists in London to open a credit for banks or finance houses abroad, which credit is availed of by the drawing of bills. To this extent the foreign bills sold in the financial centres of this continent are not founded upon merchandise. They are, however, a mere fraction of the whole. And, it may be added, such drawings are invariably covered afterwards by mercantile bills.

Yet another class of bills may be briefly noticed, viz., such as are drawn by banks or capitalists upon their own offices in London or Paris. These bills afford a mode of raising capital which may be profitably employed on this side of the Atlantic. The bills, however, are of the one-name class, and no matter how high the credit that the one name commands (and it runs up into very many millions in some cases⁵⁰) the money market of London will at times discriminate between such bills and those drawn upon a London bank.

There is another description of foreign business which has attained a large development in these times, viz., the issuing of Credits by banks on this side of the Atlantic to importers of staple goods. The working of

⁵⁰ It is, however, known to old bankers that in the great revulsion of 1857 one of the greatest of the capitalist houses was obliged to apply for assistance to the Bank of England. The Bank loaned the firm a million sterling, and entrusted the selection of the securities to a well-known officer of the Bank of Montreal in New York.

this system illustrates in a striking degree the co-operation of banking and commerce. Let us put the matter in a concrete form, that it may be better understood. A woolen manufacturer in the United States or Canada requires certain wools which can be had most conveniently in Australia. How is he to get them? It would not be reasonable for a wool exporter in Australia to send his goods to Boston or Montreal on credit, or for an importer to disburse cash to buy a bill to send to Australia, which bill might be for an amount much less or much more than the value of the wool his correspondent would buy. What he does is this: A banker in Boston or Montreal will give him a letter, on an engraved form, authorizing any correspondent of his in Australia to draw on a bank in London or Paris for any amount he needs up to a certain sum, the bill to have attached to it an invoice for wool, a bill of lading for the same, and a policy of insurance. With this document in hand, the Australian wool exporter can ship wool to America and obtain cash for it at once from a bank in Melbourne or Sydney by drawing in conformity with the credit. The bill with its documents is presented and accepted in London, the bill of lading, invoice and insurance being passed on to Boston or Montreal, with advice of the amount drawn against them. The banker on this side of the Atlantic then advises his customer that he holds the documents for the wool, that so many pounds sterling have been drawn against it, which amount is at his debit, for which he is called on to settle by furnishing, on the terms of the credit, a banker's bill on London. Thus, the first disbursement of the wool merchant in New England or Canada is coincident with the arrival of the goods or the document representing them. And a clean settlement of the whole transaction has been made. For the credit has been used to the exact amount needed, and the balance is cancelled.⁵¹

Letters of credit for the use of travelers are on a different footing altogether. There is no merchandise in the case, and the use of the credit is simply to transmit money by bills of exchange in the ordinary way, without risk.

One final remark with regard to foreign bills needs to be made.

The development of messages across the ocean by cable has given rise to numbers of monetary transactions between different countries in which bills are dispensed with altogether. A New York banker can order his London correspondent to pay money to an applicant by cable message,

⁵¹ It is a point of very important consideration with a banker who has issued a commercial credit which becomes practically an advance on goods in transit secured by a bill of lading, whether, and on what terms, he should give up the bill of lading on the arrival of the goods, and before payment by the customer. If the banker does, he is then under advance without security. The only exception to this is when the customer receives a bill of lading for the purpose of customs entry and warehousing, bringing back a warehouse receipt within a day or two. In this case the banker does not lose his hold on the goods unless there is actual fraud. But when goods are allowed to be placed in the customer's warehouse the banker will generally lose his security.

just as easily as he could by drawing a bill. The importer referred to in the former part of this chapter can obtain a cable transfer, as it is called, just as formerly he would buy a bill of exchange. By means of this he could pay a London merchant, with no more loss of time than would be required to pay a bill to a neighbor across the street.

These transactions, however, require different arrangements in London. For when a bill is drawn at sixty days after sight, the London banker who accepts it has sixty days before payment in money is required. But a cable transfer requires payment of money on the spot. Now, as no London banker has an infinite supply of money at command, he has to watch the daily calls upon him for cash with as much care as a banker does on this side the Atlantic. For this reason, the banker on this side will be careful when selling "cables" to keep within the limits prescribed for his drawing on London for cash.

CHAPTER XXII.

OVERDRAFTS IN CANADA AND CASH CREDITS IN SCOTLAND.

DANGERS IN OVERDRAFTS—CANADIAN PRACTICE—UNSECURED ADVANCES
—ADVANTAGES AND DISADVANTAGES OF THE SCOTCH SYSTEM.

THERE is perhaps no more important matter to which the attention of directors and general managers of banks should be directed than *overdrafts*. For some of the most dangerous departures from sound banking principles that have transpired in Canada have occurred in connection with them. For this reason it has been desirable to devote a chapter to a careful consideration of the subject.

The question of overdrafts is entirely a different one in England and Scotland from what it is in Canada and the United States; and for this reason: In Scotland, advances to customers, as distinguished from the discounting of trade bills, are made by allowing the current account of the party to be in debt. The extent to which this shall be the case is fixed by the board of directors; and for this amount, security, as a rule, is held. This system of advancing by secured debit balances, is the well-known *cash credit* system of Scotland, the same system, however, being common all over the north of England, at least. This system consists simply in fixing the amount to which the *debit balance* of a customer shall be allowed to run. And in Scotland, and in many parts of England too, it is only when this authorized amount is *exceeded* that the account is said to be overdrawn. The excess only, in that case, is called an overdraft. If a merchant obtains a credit of a thousand pounds, from a Scotch or English bank, the amount is notified to the manager, whose business it is to keep the current account debit within that sum. Occasions, however, do arise when the merchant may draw a check which oversteps the limit. Sometimes this may be from inadvertence, sometimes from monetary pressure. If the manager takes the responsibility of allowing the check to be paid, the account is then overdrawn by so much, and the customer will be requested to put it in order. Or a customer (and this is the proper course) may interview the manager, explain that some expected remittance has not come to hand, and ask to be allowed to overdraw his account, let us say, for a week or two, to the extent of a hundred pounds. The manager may, or may not consent. If he consents, the debit balance will be a hundred pounds more than it ought to be. Under this system of business all the debit balances of current accounts are constantly under the view of the manager of a branch; and if a prudent man, he will take care that they are all in order, and as authorized. For he is held responsible for any over-drawing. If he finds that a teller or cashier has paid the checks of

a customer to an amount beyond the sum authorized, he will call him sharply to account, and insist upon his getting the overdrawn amount paid in.

Similarly, the debit balances of customers at all points are constantly under review at headquarters; and for this good reason, that the loans or advances of the bank are all to be found there. Overdrafts, therefore, cannot fail to be noticed. If the returns from a certain branch show that certain accounts are overdrawn, the manager will be called to account, asked for explanations, possibly sharply reproved, and may even be suspended from his functions, unless he can show that he was authorized to allow them by correspondence. But this is not all. It is perfectly easy for a board of directors to examine such statements of debit balances, and as all credits in this shape have been authorized by them, it is easy for them to see whether any accounts are overdrawn. If any of them are, they will no doubt ask the reason why. And if a general manager (or officer acting as such) cannot give good reasons, he is liable to displeasure in his turn.

Thus the whole system of the bank works harmoniously. Everything is clearly apparent. All advances are regularly reported, considered, and dealt with by the branch manager, and the general manager, up to the final authority, the board itself.⁵²

OVERDRAFTS IN CANADIAN BANKS.

But overdrafts in a Canadian bank are on a different footing from the outset. The rule is that current accounts are all expected to be in credit. A general manager, therefore, does not look for advances in lists of deposit balances. Such lists are generally sent at much longer intervals than the statements of loans and discounts, and this for an obvious reason. Whilst it is of the first importance for a manager to keep an eye on the total amount of deposits, so as to keep proper reserves, it is of only secondary importance whose particular money it is that is deposited with him. Mr. Thomas Johnson, let us say, keeps a current account with one of the branches of the bank. It matters little whether the balance at his credit is \$500 or \$5,000. And what he puts in and draws out week by week is not a matter of particular interest to the management.⁵³

But if Mr. Johnson owes the bank money, the amount he owes is a matter of the first consequence. If he owes \$5,000 he may be abundantly good for it. The board may have authorized that amount; security for that sum may be held. But let us suppose, and such things have really

⁵² This is, of course, the system in theory. Whether it is properly worked out in practice will depend on the care and attention the directors bestow on the business of the bank. The best system may be badly administered, and produce poor results. But there can be no doubt that the system of advances prevailing in Scotland and the north of England is a much safer one to work, and that under it the directors find it much easier to keep track of advances made at various points.

⁵³ If Mr. Johnson has discounts or advances, it is, of course, desirable to keep an eye upon the working of his current balances as bearing on the profitability of his account, or otherwise. But what is now being discussed is its safety.

happened, that whilst \$5,000 is the sum which Mr. Johnson has been authorized to borrow, a weak manager has been prevailed on to advance him double or treble that amount. This is a state of things to create serious concern. For the general management may be well aware that the latter sums were not only entirely unauthorized, but beyond his ability to pay. Underneath, then, what may be a single line of a statement, there may loom up the horrid figures of a bad debt. It is apparent then that statements of loans and advances are of vastly more importance than statements of credit balances, and that they should be sent much more frequently, and in such a form that they will be naturally looked for, readily comprehended by directors, and attract the attention they deserve.

Yet persons on this side the Atlantic may draw checks which turn a current account to a debit; and here, as in England, a manager may think the amount desired to be perfectly good, and take the responsibility of allowing it. *He must take the responsibility*; and, at times, a very serious responsibility it is. For even perfectly good customers are not all considerate, neither are they all attentive. A responsible firm, considering themselves to be perfectly good, may at times take liberties with their account, and overdraw to a considerable amount. The manager has now to consider whether he shall refuse the check, and thereby offend and alienate a firm whose account is valuable, or whether he shall pay the check and so make an unsecured advance without authority, to a firm whose position may possibly turn out not to be so good as he supposes.

But now, supposing the check has been paid and the advance made, is a manager to allow it to appear as a simple item in a list of deposit balances, every one of which is presumed to be a credit, and therefore returnable only at considerable intervals to head office? Such a course is obviously dangerous; all which leads up to this conclusion, that *any overdrafts in the deposit ledger, if such there be, should be reported in the same statement which contains the loans of the branch.*

It should be the business of a general manager to see that this is done. But the directors may very properly take the matter up also; first seeing to it that statements of overdrafts are regularly laid before them, and then taking care to examine them, conferring with the general manager, and giving through him such directions as may be needful. The board will of course not care to have lists of trifling sums brought to their attention; they would do well therefore to fix a minimum below which no report need to be made to them. The general manager will, however, take cognizance of them all.

DANGERS OF MAKING UNSECURED ADVANCES.

The making of advances by allowing debit balances of a current account, when it is not provided for as part of an established system like that of Scotland, has been proved to be dangerous. The advances

that brought ruin to the Commercial Bank in the early years of banking in Canada could never have assumed the disastrous shape they did if they had been made in the customary manner, viz., by promissory notes. For it was not simply that advances were allowed to grow to enormous dimensions, but the fact that the bank was unable to prove that the debt was contracted by the corporation that was supposed to owe it. There were two corporations in the case, very intimately connected, but legally distinct. One of them was sound and solvent, the other practically insolvent. The same officers, however, governed both. The loans were negotiated by these officers. The bank supposed they were advancing money to the sound and solvent company, to be used by it in furthering the business of the weak and crippled one of which they had control. But the solvent company, when called upon to pay, declared that they never borrowed the money at all; that their officers, being also officers of the weaker company, borrowed the money on its behalf. When issue was joined in court, the bank was utterly unable to prove that the solvent company was its debtor, and on books and pass-books being produced it was found that both in the ledger and in the pass-books, the headings had repeatedly been in the name of the weaker company. Thus issues of hundreds of thousands of dollars hung upon the entries of subordinate officers. The case was decided against the bank, which decision was the beginning of its downfall.

Now, had the advances been made by promissory notes, which notes must in the nature of things have been drawn in a clear and unmistakable manner, the officers must have signed them, either in the name of the one company or the other. The liability, in that case, could never have been disputed, and the bank would have been saved a protracted and costly lawsuit, with an enormous loss at the end of it, which loss proved its ruin.

This instance may be said to prove that the Canadian system is better than the Scotch. But the advances of the Commercial Bank were not made on the Scotch system at all. They were made on a deplorably bad imitation of it, in which its most essential feature was lost sight of. Under the Scotch system, the amount of the credit is strictly defined, and a bond of security taken, duly signed, sealed, and delivered, for the whole amount. If these advances had been made on the Scotch system, the solvent company would have been required, at the outset, to give a bond of guarantee, which bond would have been drawn by the legal advisers of the bank, making the solvent company liable beyond doubt. Then further, that guarantee would have fixed the amount to be advanced, an invaluable safeguard against advances being allowed to run on indefinitely as they did. As it was, the advances were allowed to run to nearly ten times the amount verbally agreed upon at the outset. They were made, in fact, neither on the Scotch system nor the Canadian.⁵⁴

⁵⁴ In another instance known to the writer, one of the heaviest bad debts ever made by a Canadian bank arose through advances to a certain firm being allowed to be carried on in the shape of continual overdrawings of a very active current account.

It is at this time of day vain to think of making a fundamental change in the mode of making bank advances in Canada, or the United States, but it is certainly worth while to consider the points in which the Scotch system has the advantage. In speaking of Scotland, let it be understood that a considerable part of England is included too, and specially that wherein the writer's English experience was gained.

ADVANTAGES AND DISADVANTAGES OF THE SCOTCH SYSTEM.

The advantages of the Scotch system are the following:

(1) Advances can never be confounded with trade bills. Every banker knows, and every merchant knows, too, that there are fundamental differences between these two: first, in the risk; next, in the availability; and, last and most important of all, in the amount of attention they require. The risk of trade bills (provided only they are bona fide and genuine) is immensely less than the risk of loans. Their availability to bring in money when due is immensely greater. And as to the amount of attention that loans require, it would be to speak within bounds to say, that they require as a rule ten times as much as trade bills. To this, there may, of course be exceptions. In all bank statements, therefore, it is of vital importance to keep advances and trade bills separate. This is most effectually done under the Scotch system, for loans are entered in an altogether different set of books from those which contain trade bills, and they are reported to head office on different statements. But in Canadian practice they are apt to be confounded, for the reason that both are made by promissory notes exactly similar in form, both are entered, commonly, in the same register and ledgers, and both are included in statements under the one generic term, liabilities. They are apt, in fact, to get so inextricably mixed in a badly-managed office that it has taken weeks of the time of a superior officer to disentangle the accounts in which they are entered, and to fix the primary and secondary liability on the proper parties.

(2) The second advantage of the Scotch system is that all advances are initiated in the first place and authorized by the board of directors. No matter in what branch advances are made, authorization must come from headquarters. This has so long been the established custom all over Scotland that every person understands it and conforms to it, both branch managers and customers alike.

It is quite true that in Canada all advances on credits of importance and those which are to be spread over a whole season, are, as a rule, applied for to the board, and not entered on until sanctioned by them. But it is also a part of the Canadian system that discounts of promissory notes, known to be loans, are constantly made in a majority of offices, that have never been submitted to the board at all. The first that a general manager knows of them is when they come before him in a list of bills discounted.

(3) The third advantage of the Scotch system is that all such ad-

vances are accompanied by, not mere endorsements, but by bonds of guarantee, drawn up in legal form, and duly signed, sealed, and delivered. This has prevailed in Scotland for generations, and it is now an ingrained habit of the whole people, rooted by long continuance, that when they want to borrow money from a bank, they give security for it by a bond. There is the further advantage in giving security by legal documents, that the guarantors cannot but feel the legal responsibility that attaches to them, when instead of merely writing their names across the back of a promissory note, often in a very perfunctory way, thinking little about it (and it is undeniable that they do), they sign and seal a legal document in the presence of one or more witnesses. The importance of having endorser alive to their responsibilities has been enlarged on already. Every banker is well aware of it. There is under this system the further important advantage to the banker himself, that such a document of guarantee can scarcely ever be forged. A branch manager can never be certain that the endorsement on a promissory note is genuine, unless the endorser comes in person and signs in his presence. He has been authorized to lend John Smith up to \$5,000 on the endorsement of Thomas Malcolm. When, then, the customer brings promissory notes, apparently endorsed by Thomas Malcolm, the manager is apt to be satisfied. Yet Malcolm may never have signed at all. What is, perhaps, more dangerous still, although Malcolm may have signed the original note, he may not have signed the renewal of it. But a bond of guarantee is not only signed, generally by more than one person, but witnessed in the office of the bank. This renders forgery practically impossible.⁵⁵

There are undoubtedly some disadvantages in the practical working of the system. One of these is that in case of an account becoming unsatisfactory, it is more difficult to deal with than if it was expressed by one or more promissory notes, coming due on definite days. If renewal is desired, as it almost certainly will be in such a case, the opportunity arises of insisting upon payment or reduction. It is generally stipulated that a cash credit shall be paid up at least once a year, but until the time for retirement comes, the tacit understanding is that advances shall be continued without criticism, unless often overdrawn. But when a promissory note comes due the opportunity for criticism arises naturally, and must be met.

Another point of disadvantage is that if a customer is called upon to pay the balance against him, and the amount is disputed, it is sometimes difficult to establish it. If a single voucher is missing, it cannot be done. The writer has a vivid recollection of a case of this kind occurring when he was a young clerk, and of the weary time he had, day after day, in the intervals of business, and after bank hours, in laborious

⁵⁵ A rule has been sometimes adopted by a bank that every endorser on a loan note must sign his name in the presence of the manager. But it has been found very difficult to carry it out in practice.

searching for documents that had been filed away months and even years before. Payment on his bond was being demanded from a guarantor, but it was necessary, of course, to establish the amount of the debt before a definite sum could be demanded of him.

These, however, are trifling drawbacks, compared with the great advantages attending the system; and the writer has had practical experience of the working of both.

We have in Canada, in various spheres of action, improved upon the methods of other countries, by adopting all their good points, and leaving out or modifying what seemed to be defective. And, in this matter, we could undoubtedly accomplish it. For example, the promissory notes representing advances should be kept in entirely different registers, and posted into entirely different liability ledgers from those relating to trade bills. Advances should be entered in different statements, when accounts are placed before the board. Overdrafts should be forbidden until security is held, but when allowed, under exceptional circumstances, an accurate account should be taken of them and entered along with other advances to the same party if any exist.

It might be well to consider whether the Scotch system of security by guarantee in the case of established credits might not be substituted for the prevalent practice of security by endorsement.⁵⁶

It must not be imagined from the foregoing that the trade bills offered to a banker, either in England or Canada, require no examination or supervision. A striking instance given under the head of forgeries—which occurred in Scotland—will prove that they do so. But the examination and criticism of these is conducted on entirely different principles from those required in judging advances, and it is far less laborious.

⁵⁶ In fact, the law of bills of exchange and promissory notes might well be revised so as to place the practice of endorsement by way of guarantee on an entirely different footing from the endorsement of the owner of a bill. It might be enacted that an endorsement as guarantee should always be so expressed; as, for example, in the following form, or something to the same purport: "For valid consideration I hereby guarantee payment of the within promissory note at maturity. As witness my hand and seal, at this day of190.."

This understanding should be witnessed in the office of the bank. It used to be held by some English judges that a promissory note was not a negotiable instrument. They doubtless were thinking of a promissory note given to represent money borrowed, and not of a note given in settlement of a mercantile account.

CHAPTER XXIII.

BANK RESERVES.

RATIONALE OF CASH RESERVES—HOW MUCH—OF WHAT CHARACTER—
CANADIAN LEGAL TENDER—PROPORTION TO BE KEPT BY BANKS—
OTHER FORMS OF RESERVES—BANK BALANCES—CALL LOANS—CON-
DITIONS AS TO BOTH.

IT has been pointed out that the first idea of one who has commenced the business of taking care of other people's money, and has engaged to repay it on demand, will be to keep the whole of it in his safe; and a humorous example of this feeling has been given in the address of the president of a newly-organized bank in the United States. There would, indeed, be some justification for this course; for how, such a banker might say, can I possibly tell *when* these people will want their money, or *how much* they will want, if they need any at all. Until, then, he had arrived by experience at what may be called a law of average, as to the demands of his customers (as a whole) from time to time, he would, if prudent, keep the larger part of the money deposited with him within reach. But as time went on such a banker would arrive at this general average, and after providing for this, and also for unforeseen emergencies, would feel himself safe in using the balance of his depositor's funds in transactions yielding interest.

Through such a process as this the whole business of banking has passed, until in the evolution of events general rules and principles have been arrived at; applicable, some to one condition of things and some to another. For conditions differ in different countries and also at different times. It is universally conceded, for example, that in the case of the Bank of England a larger percentage of actual money reserve is needful than is the case with an ordinary bank; and for this reason, that the Bank of England is the depository of the spare money of all the banks in the Kingdom. In the balance-sheets of all London banks will be found the significant item, *cash on hand, and in the Bank of England*. They all keep large amounts of money in the great central institution, not that they get any interest for it, for they do not, but for the sake of convenience, and partly, also, for safety.

But these London banks are themselves custodians of the spare funds of the banks of the interior, all of whom keep accounts with a London bank, and usually have large amounts of their reserve money lodged with them. It thus has come about, by a gradual evolutionary process, that much of the reserve money of the whole Kingdom is in the shape of balances due by the Bank of England; a fact which at once suggests that

the great national institution should keep a far larger proportion of such balances in actual gold in its vaults than would be necessary if its depositors were wholly mercantile.

But at this point another consideration arises, viz., of what should this actual money consist? The answer to this question involves another, viz., what is considered to be actual *money*; that is, what are all persons bound to receive as such according to the law of England or of any other country? Within the Bank of England itself the only money which it can tender in response to a demand is GOLD COIN. This is the only LEGAL TENDER for the Bank. But the law of England has provided that the *notes of the Bank of England* are themselves legal tender everywhere except at the counter of the Bank itself. These notes are simply the *promises* of the corporation to pay a given number of pounds on demand; but it would obviously be absurd for the Bank to be able, legally, to pay its own promises with its own promises. This would make them irredeemable, in which case they would infallibly go to a discount. The Bank must perforce pay in gold, if payment is demanded. Gold, of course, is legal tender if any other bank or person chooses to tender it. Silver coins are recognized as legal tender also, but only to the extent of two pounds—an amount evidently fixed as the sum an individual can carry about with him, or wherewith a laborer's wages can be paid, or small change made. It is, however, entirely unsuitable for the larger purposes of trade and commerce.

Gold, therefore, is the final legal money of England (but Bank of England notes are not legal tender in Scotland), and as the Bank of England is the only place where no other money will answer lawful demands, this Bank is the great reservoir of gold for the country. Every other bank in the Kingdom can keep its available reserve in Bank of England notes, and with them discharge all lawful obligations. But as no bank notes in England are less than five pounds, a large amount of gold coin must necessarily be kept for the requirements of business.

It has come, therefore, to be universally understood that the percentage of the reserve of the Bank shall be on a far higher scale than is considered necessary for an ordinary institution. It generally ranges from forty to fifty per cent. of the Bank's liabilities, and is watched by the whole financial world with as much care, and sometimes with as much anxiety, as the weather is by a farmer or a navigator.

For ordinary banks it has come to be recognized, as the result of wide experience, that a cash reserve of about twenty-five per cent. of liabilities is sufficient for ordinary purposes; with the proviso, however, that a sort of secondary reserve shall be held for emergencies in the shape of investments. The latter is fully of treated later on. The proportion of twenty-five per cent. has been adopted in the banking law of the United States as the standard to which all the national banks located in "central reserve cities" and "reserve cities" must conform. That amount of available reserve they are bound to keep. But the banks of Canada, though

fully recognizing this percentage as a reasonable one, have always declined to have it made compulsory, for reasons set forth in other chapters.

CHARACTER OF THE RESERVE.

Assuming, then, that this amount may be reasonable for a bank to keep, the question may fairly be raised as to the precise shape in which such a reserve should be held. This brings us to the question of what is legal-tender money in Canada?

It is to the credit of Canadian financiers and bankers that they have always maintained that gold is the only proper basis for a monetary system, refusing to be drawn away by the plausible arguments, at one time so general in the United States, in favor of a double standard. And whatever may have been the case in the early days of settlement, it is certain that for more than sixty years past the single standard of gold as legal tender has been resolutely maintained. The only time when specie payments were ever suspended in any of the British Provinces was when the country was in a state of civil war. This was in 1837.

But about forty years ago—or immediately after Confederation—a strenuous attempt was made to introduce a Government currency which would operate somewhat as that of the Bank of England does in England. These Government notes were to be legal tender, except at the Government Treasury. There they were to be redeemable, on demand, in gold. Under this measure it was intended to abolish bank-note circulation altogether. The majority of the banks, however, strenuously resisted this; and after a controversy extending over several sessions of Parliament, a compromise was finally agreed to, by the terms of which the banks retained the right to issue notes to the extent of their capital. An act was passed authorizing the issue of Government notes, but only of small denominations, for general circulation; and also of notes of large denominations for use between banks in settlement of claims against each other. Both alike were to be redeemable in gold. The final basis, therefore, in the country was still to be gold.

In connection with this an important clause was introduced into the Banking Act, which ensured that the banks, at all times, should hold large amounts of these Government notes. The clause was this, that whatever amount each bank might hold from time to time, as a cash reserve, at least forty per cent. thereof should consist of Government notes. Being then under obligation to hold such large amounts, it became a matter of vital importance to the banks that this currency should never fail to be redeemable in gold on demand. When, therefore, the Dominion Note Act was passed, the bankers of the day, in conference with the Government, pressed strenuously for a broad foundation of actual gold, to be always available in the Treasury, and that Government bonds, duly authorized by Parliament, should be held for the balance. These ideas were acquiesced in by the Government, and on this foundation the legal-tender notes of Canada have ever since rested. It is important to note

that there has never been an occasion in which the Treasury failed to respond instantly to any demand for gold made upon it.⁵⁷

Thus, then, we arrive at the mode in which the banks of Canada deal with their cash reserve. All their instincts as bankers and all the traditions that influence them, would lead them to keep their cash reserves wholly in gold coin, and to make their clearing-house settlements in that medium. This they actually did until the Dominion Note Act was passed. But as the law of their organization binds them to keep at least forty per cent. in Government notes, and this under heavy penalties, they do, as a matter of fact, keep more. How much more is left to their own discretion and convenience. Notes of large denominations are, of course, much more convenient to handle than the bags of gold they were formerly accustomed to carry about. And being well convinced that these notes are perfectly safe, long experience having proved that gold can be had for them whenever wanted, the banks have settled down into a general practice of keeping much larger amounts of such notes than they are bound to do.

There are, however, two drawbacks. It is much easier to steal and to hide such notes than it is to steal gold. Gold is so heavy that it is practically impossible for a thief to carry it away. A theft of bags of gold has never occurred in the experience of banks of Canada, although it has been known that bars of specie have been stolen in transmission across the Atlantic and the Continent. The second drawback arises from the fact that all engraved notes can be imitated and forged; a very practical danger, as experience has proved. In view of both these possibilities, the Government, after consultation with the officers of banks, have adopted special precautions in the matter, making it almost impossible for the large notes to be used in any way except between banks, and thus practically useless to a thief or embezzler. As to the smaller ones, as none can be issued above four dollars, it is not worth while to attempt to counterfeit them.

The banks, it will be observed, under this system are under no obligation to keep gold at all. Every demand made upon them can be satisfied with legal-tender notes. But as a matter of fact all the banks *do* keep a portion of their cash in gold, as may be seen by the returns made to the Government. There has never been an issue of these returns in which any bank reported that it carried no gold. Now, for this course there have been several reasons. The first is that they are sometimes *asked* for gold by customers who are travelling, or who have a use for

⁵⁷ The basis, it will be perceived, is analogous to that of the Bank of England. That Bank is popularly supposed to hold actual coin against every note passing over the counter of its issue department. But this is a fallacy. The Bank is authorized to issue notes against the large amount of Government bonds which represent its own capital. Thus, Bank of England notes, like those of the Government of Canada, rest partly upon a strictly-defined amount of Government bonds, and partly upon gold. It should be noted further, that the Dominion Note Act strictly limits the amount of notes that may be issued against Government securities, and ordains that for any excess beyond this amount dollar for dollar shall be held in actual gold coin.

gold, at times, in the transaction of business. These demands, however, are always very slight. Another reason for keeping gold is that in certain conditions of exchange with Great Britain and also with the United States it is the most profitable medium of remittance. This, however, does not, as a rule call for what may be called large amounts, that is, in proportion to the total reserves of the bank.

A third is, that long and traditional habits with Canadian bankers have led them to value gold as the final foundation of all their transactions, and to keep as much of it as they can with convenience and under compliance with the law. It may be truthfully said, that in spite of the great convenience of legal-tender notes *in practice*, there is not a Canadian banker but would feel more satisfaction in carrying gold in his vaults to represent the whole of the cash reserve. Another reason (rather a remote one in practice) why the banks keep a certain supply of gold is, that on the rare occasions that a "run" takes place on any of them, nothing will satisfy demands as effectually as gold. Indeed, it has been known more than once, in the experience of both sides of the Atlantic, that the mere piling up of gold on the counter in sight of all and sundry who came, has been sufficient to stop a "run" altogether. Fifty thousand dollars is the merest fraction of the reserve of most of our banks, but fifty thousand dollars in gold coins, piled up on the counter in front of a paying teller will generally satisfy all but the most nervous applicants. When the people see so much gold they are ashamed to ask for it.

But now, granting that the cash reserves of the bank must, of necessity, consist partly of legal-tender notes, and assuming that twenty-five per cent. of liabilities may be considered a normal amount, why should not a bank keep the whole of this percentage in Government notes and gold? That none of the Canadian banks do this is known to all who examine their statements to the Government. On the other hand it is equally well known that the sum total of what the banks call their *available reserves* is, as a rule, far beyond the twenty-five per cent., and is more frequently as much as fifty per cent.

A critic, however, may say, that as the liabilities of the bank are all payable in legal tender or gold, why not keep this twenty-five per cent. at any rate in this solid shape? Demands are daily made on the banks by other banks, and it is certain such demands cannot be satisfied by tender of balances due from banks abroad or by call loans. Why then not keep in the vault the kind of material which can be used on the spot? This is a very reasonable question, to which every banker is bound to give reasonable consideration, with a view to satisfying not only himself but the banking community and the public generally. For, in any country, none are so much interested as bankers in the stability of banks as a whole. But this is more particularly the case in Canada, where, under the operation of the "redemption fund," all the banks are practically guarantors of each other's notes. No persons watch the returns of the reserves of the banks with so much care as bankers do. But with far

more care do prudent bankers watch the fluctuations in their own reserves. The amount and the percentage of his available resources is a matter of daily consideration and examination by every banker. And just as the *amount* of the reserves is so considered, so is their character. If any banker had concluded, as the fruit of reasoning and experience, that it was necessary to keep the whole percentage of his reserves in gold and Government notes, he would undoubtedly do it. But practical experience—and that extended over a long period and through varied circumstances—has convinced most bankers that the requirements of safety can be fully met by keeping considerable sums deposited, at credit with banking agents, in one or more great financial centres. Thus it is, as has been observed, that English country bankers keep so much of their cash in the hands of their London agents, while these agents, in their turn, keep a large part of their cash in the vaults of the Bank of England. The same principle obtains in the requirements of the United States banking law, which, rigid as they are, as to the total *amount*, allow considerable portions of such reserves to be deposited with banks in large centres.

Now, in considering the application of this general principle to Canadian banks, let it be noticed that the requirements of their business call for them all to have accounts with bankers in at least two financial centres—New York and London; and in some cases with Boston also. Without such arrangements they could not meet the requirements of their customers, nor make the collections required in the course of business. The trade between Canada and the United States is, as we all know, of immense magnitude; but it is not so well understood that this immense trade is all represented by banking transactions of equal magnitude. Now, New York is the financial centre of the American Continent, and all these transactions finally centre there. Money flows *to* New York and flows out *from* New York in large sums (only a small part, however, in actual coin), according as the exigencies of commerce arise. Canada is included within the area of these operations, and the Canadian banks, in furtherance of them, must of necessity keep large supplies of money in New York at immediate call. These balances with banks in New York as a financial centre correspond with the balances kept by provincial and Scotch banks in London. And experience has demonstrated that the money a Canadian banker has with his banking agent in New York is almost as available as if he had locked it up in his safe. He can make it available in the intercourse of banks by drafts, for which he can obtain legal tenders on the spot, if he needs them. It has thus come about that bankers in Canada have come to regard cash to their credit in a New York bank as a part of their cash reserves.

UTILIZATION OF SPARE FUNDS.

There are, however, other considerations connected with this matter. Whilst the first instinct of every banker is to keep himself safe, under all

circumstances, it is equally his instinct to endeavor to make as much profit as he can out of the funds at his daily command. This has long led to the consideration whether spare funds cannot be so employed as to yield some interest, and yet be absolutely safe and at command when wanted. It is obviously only in great financial centres, where vast masses of money are constantly to be found, that such operations could be devised; accordingly, it is only in London and New York where they are developed to any large extent. They are found indeed, but only to a limited degree, in smaller financial centres. Now, in London, for one or two generations back, the balance-sheet of every bank has contained amongst its assets this significant item, *loans at call*, the significance being that this item was invariably included as a part of the cash reserve of the bank and not amongst its loans or investments. *Cash on hand, in Bank of England, or at call*; this form, slightly varied as it may be, but the same in substance, has appeared in every London bank statement for fifty years. And the fact that it has so continued and is in full force to this day, is proof that it has worked satisfactorily.

The same conditions that have prevailed in London have also arisen, and had influence in New York. Money can be loaned there with a large margin of security and with an assurance of being returned on demand, to a class of borrowers of high standing. It has been so for a sufficiently long term of years to enable the system to be tested. And as it has yielded similar satisfactory results, the banks have steadily followed the course pursued in London and placed money out on call, repayable on demand, with a large margin of security, taking for it whatever rate may be current at the time. And long experience, in every variety of circumstances, even in sharp crises, has proved to bankers that they can do this with assurance of receiving it when wanted. The bankers of Canada well know the importance of having their ordinary reserves at absolute command; and if at any time any events had transpired which cast a shade of uncertainty over this fundamental requirement, it would have been discontinued beyond doubt.⁵⁸

Much that has been observed with regard to placing spare money and keeping part of a banker's cash reserves in New York applies equally to London. The whole trade between Canada and Great Britain gives rise to banking transactions in the shape of sterling bills of exchange or transfers of money by cable. Indeed, if the amount of such bills passing

⁵⁸ There are, however, call loans put out in smaller centres of finance than New York or London. In fact, wherever there is a stock exchange, of sufficient magnitude to give rise to large daily transactions, there is the opportunity of placing out money strictly at call, on the security of stocks and bonds. But bankers are well aware of the difference between such small centres and those of continental or world-wide magnitude like New York or London. This difference is not so much in the safety of the loans as in the certainty of repayment of large amounts immediately on call. It has consequently been the practice, especially by the larger banks, to place a limit on the amount of money they loan at call in smaller centres, reserving the larger operations for New York or London. But as to safety, there is as much of this in the smaller centres as the larger.

through the hands of the bankers that have to do with them could be ascertained, it would be found to afford a very fair idea of the trade between Canada and the mother country. All these transactions finally centre in London. It is a matter of necessity, therefore, with all Canadian banks to keep an account with a bank in London, and to have money at command there. With the majority of the banks, balances with their bankers comprise the whole of the arrangements they have in that centre. But several of the larger ones have an office of their own in London and can, if desirable, place money on call there as they do in New York.⁵⁹

Thus balances and items are created, which appear in bank statements either as balances due from banks in Great Britain, or call loans put out on that market.

We thus arrive at the three modes in which a banker's cash reserve may be held: First, in gold or legal-tender notes, in his own possession; second, cash balances due on demand from other banks, generally in New York and London, but sometimes in smaller centres; third, cash, payable on demand—or it may be at one or two days' notice—loaned to stock brokers with stocks or bonds as security, and a margin.

It is the last two items that give rise to criticism, and the criticism is, either that the banker from whom money is due may become embarrassed and fail to respond at once, or that the parties who have borrowed money on call may also fail to respond and compel the banker to realize his loan by selling securities. This, of course, would cause delay, and thus make such transactions undesirable as cash reserves. To all which it is sufficient to reply that time and experience test all things. When brought to this test, both these modes of placing money have been demonstrated to be successful. As to balances due from banks in large centres, there has hardly been known an instance, amongst the countless multitude of transactions in which any New York bank failed to respond to demands. Not that no bank has ever failed in New York, for some second-rate concerns have stopped payment. But none of the large corporations, with whom the Canadian banks are in the habit of keeping accounts, have ever failed to respond to demand. It is needless to say that the same observation applies also to London. But it may be a matter of surprise to those not acquainted with the subject to learn that there has scarcely ever been an instance, amongst the countless transactions in call loans, when a delay, even for a day, has occurred in responding, and that an actual loss of such money has scarcely ever been heard of. Thus, time and experience have both proved that, for all practical purposes,

⁵⁹ It is well known, also, that London banks are quite willing, and have been so for a long period, to allow Canadian banks a standing credit, that may be availed of or drawn for according to terms agreed upon. This credit cannot be looked upon as part of a bank's cash reserve, as a balance at credit would be, but it may be considered as a secondary line of defence against emergencies, somewhat in the same manner as we have shown investments to be in the next chapter. For money can be obtained against such a credit, by a Canadian banker at any time, within twenty-four hours.

moneys due by bankers in financial centres, and cash placed out on call, are both available at any time within twenty-four hours.⁶⁰

There are, of course, occasions during which the signs of threatened disturbance in financial matters have become so serious that bankers have thought it prudent to draw in balances due them by other banks, and to call in the money they placed out at call. Such a time, for example, was to be found when what was known as the "silver agitation" rose to such a height in the United States as to become the main factor in a Presidential contest. Canadian bankers well knew the dangers involved in this question, and were convinced that gold would rise to a premium if the views of certain parties prevailed. They had previously taken the precaution to have all their contracts for loans at call made *payable in gold*; but in addition to this it was thought desirable by some to draw away money altogether from the scene of possible disturbance, leaving only such balances as were absolutely necessary for the conduct of business.

This matter is of interest to merchants as well as bankers. For they should undoubtedly so manage their affairs as to have a reserve of cash—in hand, or in bank, or bills undiscounted, or a reserve of credit undrawn upon with their banker. If not, they may be compelled to stop payment, even though solvent.

⁶⁰ It may seem strange that a banker can reckon upon money at his credit in London being as much at his command as if he had it deposited in a bank in New York. But to such perfection have exchange operations between these financial centres been brought that bills of exchange, either at sight or time, can at once be negotiated and the amount placed to credit, with as little loss of time as it would take for a merchant to draw a check on his own bank in the same city. And if an exacting critic should object that this is not a sufficient reliance in such an important matter as cash reserves, inasmuch as financial disturbances would impede its operation, the reply must be that experience does not justify this contention. There has never been a time in the heaviest crisis in which money could not be transferred from London to New York or Montreal by means of bills of exchange, or cable transfers. The only difference between the transferring of money in a crisis and in an ordinary time is in the rate of exchange.

CHAPTER XXIV.

BANK INVESTMENTS AS RESERVES

RESERVES AGAINST EMERGENCIES—SHOULD BE NEGOTIABLE AND AVAILABLE—RESERVES OF A LONDON BANK—COMMENTS THEREON.

CLOSELY connected with the keeping of adequate reserves of cash for daily needs is that of maintaining what may be called a second line of safety and defence in the shape of *Investments*. These investments must, in the nature of things, if they are to answer the purpose, consist of securities that can at all times be easily realized. This primary condition arises out of the necessities of a banker's business, and at once differentiates his investments from those of a private individual. Such an individual has no large body of persons about him to whom he is indebted, whose funds have been lodged with him in trust, some of whom are making demands upon him every day in the regular course of business, and all of whom are resting upon the honor and wisdom of their banker to answer not only ordinary demands, but extraordinary ones. This is the first principle that dominates every movement that a banker makes, and in nothing is it so operative as in the selection of securities *for investment*.

In fact, the word "*investment*," as used in reference to a banker's business, has a radically different meaning from that which appertains to it in ordinary use. When a private individual thinks of making an investment, the primary condition he thinks of is *permanence*. If he is likely to want the money he has at his command, he keeps it in the bank. But when the need is for steady interest and security of principal, he takes it out of bank and buys something that can rest undisturbed, perhaps for years. He can purchase real estate, or take an interest in a well-established business, or lend money on mortgage for long terms. If he becomes a stockholder in a bank or other company, he thinks not of the realizableness of the security, but of the permanence of the corporation. And he acts with regard to investing in bonds on the same rule.

But with a banker this idea of permanence is out of place. His investments, so called, are really a part of his fund to meet liabilities. But not his ordinary and daily recurring liabilities, but such as are extraordinary, which arise under special circumstances and at intervals of time, such, for example, as when a bad harvest causes scarcity of money and a heavier demand for it both from depositors and mercantile customers, or when a season of bad trade supervenes and continues year after year with the same result.

If a banker's whole spare resources are employed in discounting bills and making business loans, he will find when such a time supervenes, and a drain of deposits or contraction of circulation sets in, that he cannot reduce his discounts without embarrassing his customers. In fact, at such

a time the majority of his commercial customers could not respond at all to his demands for reduction. Instead of that they will want more money from *him*. Thus, instead of his being a tower of strength to the circle who do business with him, he may become weak himself.

THE INVESTMENTS OF AN ENGLISH BANK.

Experienced bankers in old financial centres like those of Great Britain have, therefore, long found the necessity of placing out a certain percentage of their resources in securities which can be realized without disturbance. In all the statements of English and Scotch banks, but of the London ones especially, we find the item of securities owned by the bank figuring prominently. These securities, let it be observed, are the actual property of the bank and must not be confounded with call loans.

Take, for example, the following, which may be looked upon as a typical instance, inasmuch as the bank in question combines within itself almost every description of bank business as carried on throughout England. With its head office in London, where the firm of Barclay Bevan & Co. was for generations known as one of the most conservative (and yet most prosperous) of the great banks of the metropolis, it is now a joint stock corporation (under the name of Barclay & Co., Limited), in perfect touch with the commercial interests of the whole country, its customers representing every class and interest.

The paid-up capital of the bank is \$12,100,000 (the figures are given in dollars that they may be the more easily followed). The capital, of course, can never be demanded, and though sometimes considered as a liability for bookkeeping purposes, it is a great error to include it along with such liabilities as *can* be demanded.

But when we look at the item of deposits, that is, of moneys that can be actually called for, we are struck at once with the enormous amount. Deposits amount to \$165,318,000. The reserve to meet this immense total consists, in the first instance, of cash in hand, or in the Bank of England, or out on call or short notice, \$14,235,225.

This is what we have described as the ordinary reserve, kept against ordinary demands. But the bank has a provision for *extraordinary* demands also, in the shape of *investments* to the amount of \$13,612,735, being nearly the same amount as the ordinary reserve.

These investments are summarized as follows in the balance sheet of the bank:

1. British Government securities and Bank of England stock	\$18,643,000
2. Metropolitan and British corporation stocks and bonds	3,928,000
3. Indian and Colonial Government securities, including guaranteed railways	7,550,000
4. British railway debentures and guaranteed and preference stocks.....	5,592,000
5. Other securities	7,928,000

It will be apparent at once that these fulfil the essential requirements of availability. They can be realized on as may be required within a short time, and so enable the bank to meet extraordinary demands without disturbance to those mercantile customers who depend upon it for supplies.

In looking over this summary of investments it is interesting to notice one or two points as to their classification. Thus, for example, while the leading position is given to Consols and other British Government securities, it is curious to note that Bank of England *stock* is grouped with them, thus placing the Bank of England, in point of stability and credit, on a par with the British Government itself. This, of course, reflects the opinion and judgment of the directors of only one of the many banks of London; but that judgment, let us remember, is the result of several generations of knowledge and experience; and is a striking tribute to the unique position occupied by the Bank of England amongst the financial institutions of the world. For there is really nothing like it, unless perhaps the Bank of France may be included in the same category. The stability of that great Bank, amidst the constant political upheavals of the country, is one of the most remarkable phenomena of modern times.

Reverting to the classification of the Barclay Company's investments, it is again interesting to note that *Corporation stocks and bonds* are placed before Indian and Colonial Government securities.

The corporation bonds referred to are probably those of British municipalities—cities and towns chiefly—and it is interesting to see how high a place they hold.

But the *stocks* must be those of manufacturing or trading companies, of which there is an immense variety quoted on the London Stock Exchange, and of all possible degrees of stability. It is interesting to note that there are stocks of this description which are considered to be at least equal, as a banking investment, to the bonds of our own Government.

We, however, on this side of the Atlantic might classify the securities differently. For even with regard to the bonds of municipalities, it is a question if the element of municipal trading now so prominent will not introduce a very considerable amount of uncertainty as to the financial position of such corporations.

As to stocks of trading corporations, called on this side of the Atlantic Industrials, they surely cannot be compared for stability with the obligations of the great colonies and dependencies of the Empire. Their debentures are worth nearly as much as consols, and might well be placed immediately after them.

The next two classifications are natural enough. British railway bonds, with their guaranteed and preference stocks, are a class by themselves; and their stability has long been proved. It is noticeable that ordinary stocks are not included. They are all either guaranteed or

preference, though even with these the question may arise, guaranteed by whom?

The final item of nearly \$8,000,000 of "other securities" is one in which there may be endless scope for variations in value according to exigencies of the times, and the judgment of trained experts may find constant opportunities for exercise in considering them.

INVESTMENTS OF CANADIAN BANKS.

It will also be interesting to compare this classification of investments with that of the Government statements of Canadian banks. This classification reflects generally, though not absolutely, the consensus of both the Finance Department of the Government and the Council of the Bankers' Association. It is divided into three heads, as follows:

1. Dominion and Provincial Government Securities.
2. Canadian Municipal Securities, and British, Foreign, or Colonial Securities other than Canadian.
3. Railway and other bonds, debentures and stocks.

This classification is not materially different from that of the London bank. The first item is the same, with the exception of the omission of bank stock. We have nothing analogous to the Bank of England in Canada.

The second and third items correspond to the second, third and fourth in the London statement; but they are less specific and more comprehensive.

In considering the Canadian classification it will be evident that other considerations than relative stability of value have governed it. Dominion and Provincial Government securities naturally come first, but there is a very wide difference between the value of the two.

The second item includes under one heading classes of investments that are as different from one another in stability and value as can be conceived. In the same column are included all sorts of *Canadian municipal* securities (town, city and country alike, in all the various provinces), and *British public* securities, which last item, of course, includes *consols*. Then, in the third, there is no distinction made between railway bonds and stocks, though it is evident that for purposes of bank investment these two are widely different in character. Railway *stocks* are subject to such fluctuations and manipulations as to put a majority of them rather into the category of speculative holdings than solid investments that should be chosen by a bank. (It will be noticed that in the London classification all the stocks are either *guaranteed* or *preference*.)

The Canadian bank statement might be amended with advantage in many particulars, and in none more than in the columns showing their investments. Thus, if the object of the differentiation of the assets be to show how much of a bank's funds is employed in discounting and how much in investments, one column for each would be sufficient. This

distinction is one of the highest importance; for the total amount of the discounts and advances would show the total amount of service the bank is rendering to the commercial community of the country, and to that extent fulfilling the purposes of its charter; whilst the total amount of the investments would show what provision the rules of the bank thought necessary for extraordinary emergencies; that is, to secure its own protection.

It is evident that there should be a reasonable proportion between these two. For, on the one hand, if an excessive spirit of caution were to prevail, the whole of the funds of the bank, over and above its reserve of cash and availables, might be invested in Government securities, and so save the authorities of the bank from all the anxiety arising from dealing with the commercial community. But the public, that granted the charter through its representatives, would certainly complain that this style of management was not fulfilling the object of the bank's existence, and might require its charter to be surrendered, and with good reason.

On the other hand, if it appeared that the bank had no investments at all, it would be apparent either that the managers were making inadequate provision for emergencies, or that their ordinary cash resources were maintained at an unusually high figure. In that case the stockholders might complain that the bank was not earning sufficient profit.

GENERAL CHARACTER OF A BANK'S INVESTMENTS.

As to the *character* of the investments of a bank, unless the whole is to consist of Government securities, it is evident that the experienced judgment of a manager or board of directors would find ample scope in the selection. Even in municipal securities there is considerable difference in stability and value; although it may be stated, to the honor of Canadian municipal bodies, that none of them in the older provinces ever made default in the payment of either principal or interest. But this cannot be said of the municipalities of the Northwest. Some of them, in the excitement of the great "boom" of an early day, entered into engagements which, after the boom collapsed, they were entirely unable to fulfill. The result was a compromise with their creditors—a state of things however that may never be repeated.

But in the matter of railway securities, there is infinite scope for the exercise of judgment, and still more in those of enterprises such as shipping and manufacturing companies. It is to be supposed that no prudent banker will choose the *stock* of such companies as a subject for investment. The fluctuations are far too serious for such a field to be ventured upon, amounting as they do (experience shows it) to as much as fifty per cent. and upwards. Of the stocks of railway and other industrial corporations, Canada offers only a slender selection; and they would scarcely be thought of for investment by a banker. Prudence would suggest that he should confine himself to the bonds.

The bonds of railways of the whole continent offer a very large field of selection, and so do those of industrial and semi-public undertakings. These last are continually increasing, and are presented by their promoters and agents in every variety of attraction. This is especially the case with the more speculative varieties, and above all with those relating to gold mining. But these should be considered as out of the realm of a banker.

There remain to be considered the bonds of railways and of well-established undertakings of a commercial or semi-commercial character.

With respect to these, a banker must needs exercise a far more critical judgment than a private individual. That a man may do what he likes with his own is proverbial, and true enough within limitations. But no man may do what he likes with money he holds in trust. In investing such money he will do well to act on the established rule that high interest denotes poor security. Yet a banker can scarcely avoid feeling the attraction of high interest. He is investing for the sake of the interest; that is certain. And when a choice of investments is before him, as it continually will be, the higher figure will inevitably attract attention. A difference of one per cent. in the return on a considerable amount of bonds will make a perceptible difference in his profit and loss statement.

There are always two impulses in such cases—that of enterprise and that of caution, the former saying, take the risk and get the higher return; the other, be careful, for in seeking higher interest you may lose some of the principal. It need not be said that the latter is the voice to be listened to.

But mere caution will not be sufficient in the case. A banker, in considering investments, will take means to acquire *information*; he will make comparisons; he will look into antecedents and range of fluctuations; he will, perhaps above all, consider the personnel of the *parties* in control. If his information as to the last is unfavorable, he will do well to take the benefit of the doubt. For bonds, as well as stocks, though not to the same extent, may be subject to the operations of the giants of finance, whereby innocent “lambs” are fleeced. *Above all, with regard to bonds, he will choose out those that are first preference.*

A banker will certainly observe another rule of investment, viz., to *divide his risks*. And in so doing he will divide not only amongst corporations, but amongst classes. So much of ordinary railways, so much of street railways, so much of light and power companies, so much of navigation companies, so much of iron, cotton, wool, flour, and so on; this will be the rule, as well as so much under this control, and so much under that. He will thus ensure a general average of safety, for it is scarcely possible that the same cause, at the same time, can affect them all.

A banker will *revise* his investments from time to time as he does his discounts, and pass judgment upon them in detail. In so doing, he can

scarcely fail at times to discern symptoms of weakness in certain directions leading to desirableness of change. For it is in this, as it is in all other spheres of action, that constant vigilance is the price of safety.

But one settled principle should never be departed from, viz., that *stocks should be lent upon, but not owned*. When a bank buys stock it makes itself a sort of partner in the enterprise—certainly an improper position; while in buying bonds it is occupying its proper sphere as a lender of money.

It may be thought that the foregoing observations have no bearing on the conduct of a commercial or manufacturing business. But in truth every merchant and manufacturer will find it to his interest to accumulate what corresponds to the rest or reserve fund of a bank. This indeed some of them do. But this surplus over ordinary capital is often invested in the business, and not available when wanted for emergencies. A reserve fund that is represented by buildings and machinery is no reserve fund at all.⁶¹

⁶¹ One of the most prosperous of the many prosperous manufacturing concerns of Canada was managed, financially, on the principle, first of accumulating sufficient cash reserves to enable them to hold their bills receivable without discounting, and, after that, of investing surplus profits in Government securities and other negotiable bonds.

The business of this concern called at times for very heavy outlays that could not be foreseen, a state of things that might have been embarrassing but for their possession of this large reserve of bonds. When the emergency arose they would take their bonds to a bank and obtain advances on them at a much lower rate than that at which they could discount bills on their own credit, or on warehouse receipt. To this it may be replied that a commercial or manufacturing concern in good credit can always obtain advances from its bankers; and that it is rather a diversion of funds from profitable uses to invest in securities that yield a low rate of interest. But it is not true that a respectable concern can obtain advances from its bankers at all times. Bankers are themselves, at times, short of money, and are constrained to refuse even their soundest customers. The advantage, then, to a commercial house of having a reserve of negotiable bonds is that if an emergency arises, they can apply to any bank doing business in their district, or even beyond it; or, in the last resort, they can put their bonds on the market. But it is evident that a firm in this position can at times take advantage of favorable changes in the price of commodities, and buy for cash at a time when others are precluded from doing it. They can thus realize an exceptional profit, besides being in so strong a position that they can present a square front to all the winds that blow, no matter how stormy.

CHAPTER XXV.

SECURITY AND SECURITIES IN GENERAL.

SECURITY AND SECURITIES THEORETICALLY CONSIDERED, WITH PRACTICAL APPLICATIONS—OF SECURITY IN GENERAL: ITS LIMITATIONS—PERSONAL SECURITY—ENDORSEMENTS—GUARANTEES—SECURITY TAKEN ON GOODS.

SOME of the observations in this and the preceding chapters will have been found in other portions of this work where modes of doing business are referred to. (See chapters on Loans.) They are repeated here because of their intrinsic importance and because the question with which this chapter is concerned is specifically that of *security* and the various considerations connected with it.

In one of the striking scenes of "Hamlet," the great dramatist makes the Prince of Denmark say to Horatio while they are standing in the churchyard talking together: "Is not parchment made of sheep skins?" To which his friend replies: "Ay, and of calf skins, too, my lord." Hamlet rejoins: "They are sheep and calves too that seek out assurance in that." A biting sarcasm, and one that has proved only too true in the experience of many an unfortunate money lender, who relied for what Shakespeare calls "assurance," but what we generally name security, upon the mere possession of parchment deeds; forgetting that the real assurance is not in the parchment, but in the property, whatever it may be, that the parchment purports to hold. "Purports" is a very important word in this connection, for deeds do not always fulfil the purpose which the holder supposes they do. A deed may be improperly drawn; it may be signed by a party who has no right in law to convey. If he signs in an official capacity, let us say as curator, trustee or what not, the instrument creating his authority may be a faulty one.⁶² The conveyance of itself may be one that is against common or statute law; as, for example, certain conveyances are prohibited by the Banking Act; or the whole document may be a forgery, signers and witnesses alike. But even if the parchment itself is strictly regular in terms and the conveyance authorized by law, it may still fall short of being what it purports to be; i. e., *security*. For, if it is a title to land, the land may have fallen out of cultivation, with buildings dilapidated, fences thrown down or destroyed, and a plentiful crop of weeds and new underbrush, which

⁶² An instance of this is afforded by something that took place in one of the midland counties of England, where a bank took over as collateral security the deeds of a property valued at £80,000. Trouble arose. It was necessary to proceed upon the deeds; when, to the disgust of the bank, they were pronounced by a high-class conveyancer utterly worthless to convey a negotiable title. Yet they had been examined by the bank's own solicitor and pronounced perfect.

will take years to bring back into a proper condition. Nay, the land represented by the parchment may be in the condition known as *drowned* land, being continuously overflowed by water and useless for any purpose whatever. All these cases have been actually known in Canadian experience.

The instrument may not purport to convey land at all, but chattels, personal effects or merchandise, in which case another element of uncertainty enters in. For whereas land cannot be moved, and therefore is called real estate, chattels and merchandise can. So then, whilst the parchment or other document of security lies safe in the money-lender's strong box, the thing which is supposed to make him secure may have been made away with. True it is, that the law provides a certain safeguard in the shape of stringent penalties against such removal, making it almost equivalent to theft. But, while it is comparatively easy to secure conviction and punishment for actual theft, it has been proved to be difficult to obtain conviction in the case of chattels that have been removed improperly. Hence this is a real danger, which can never be lost sight of by any man that holds chattels as security.

BENEVOLENT LOANS.

The general question of security is one that has so vital a connection with the banker's business that it is desirable to lay down with perfect clearness all that appertains to it. It is a well understood and universal principle that when a man allows another to have the use of his money he shall give some form of assurance that it will be returned at the time agreed upon. The only exception is in the case of private loans made from motives of benevolence—a very important distinction—and one that throws some light on passages in ancient books on the subject, the Scriptures for example. Benevolent loans are quite commonly unsecured; moreover, they are generally without interest, a fact that at once removes them from the category of banking loans. When a man lends a sum of money to tide a friend over a difficulty, or to help a poor widow to prevent her goods from being seized, the character and the motive of the transaction are wholly different from loans undertaken by bankers. Even if the principal is not repaid when promised, the lender is seldom vexed. He did not lend the money as a matter of business, and will find his satisfaction not in the receipt of interest, but in doing good.⁶³

PERSONAL GUARANTEE.

By far the most common of all forms of banking security is that of personal guarantee. That there should be two names, at least, to every bill, is a banking axiom, and, in the case of trade bills, it is a matter of

⁶³ A careful perusal of those passages of the Old Testament in which usury is forbidden will show that many of them refer to loans of this class, viz., to money lent to needy brethren. In other cases the prohibition is against excessive and burdensome interest. But the teaching of Jesus Christ clearly recognizes the reasonableness of interest being required when the transaction is purely a matter of business. (See Mathew XXV. 27.)

course; for such bills arise from a transaction between two parties, both of whose names are on the document. Hence every trade bill would be classified as a secured transaction.⁶¹

But a banker will not, as a rule, deal with trade bills long before finding out that security, so called, does not necessarily make secure. In estimating the value of trade bills it is customary to use the phrase, are the makers or promisers good for the amount—a phrase which primarily means, have they money or available resources enough to pay the bill. This is the commercial sense of the word good; but the primary meaning of the word, as every one knows, is a moral one. It has to do with character, not money. The question therefore is one of morality also, and involves the consideration not only whether the maker is able, but whether he is willing. In looking at a certain name a banker therefore considers not alone the resources of the party, but his character also, and from this forms his conclusion, whether payment of that particular bill may be relied upon. But this is not all. A trade bill is never brought to the banker by the maker; and in this there is an essential difference between a trade bill and an endorsed loan bill. In the latter case the *maker* invariably brings it. But the trade bill is brought by the endorser; the man who sold the goods.

These points have been brought to the reader's attention in other chapters and need not be enlarged upon here, further than to say that the banker in discounting a trade bill looks, primarily, for his security to his own customer, the man who brings it to him. And in so doing he has an assurance, with regard to the other name, that of the maker or acceptor of the bill, for before he got the bill at all the seller of the goods must have exercised his judgment and concluded that the buyer was able to pay for them. The banker, therefore, with regard to such bills, exercises a double mental operation and considers, first, whether the maker can and will pay the bill, and also whether his customer can and will in case the maker does not. So important has this last consideration become, that in nearly all well governed banks the rule prevails to continue discounting for no man who has not proved himself able and willing to take up such bills at once, in case they are dishonored. A customer who fails to do this is speedily made aware that his account is undesirable.

But the question of security by endorsement arises most frequently

⁶¹ There is indeed a mode of dealing with trade bills, in large financial centres, known as "buying and discounting bills without recourse," that is, where the banker relinquishes the right to call upon the seller of the bill, and undertakes to rely, solely, on the maker. The seller of such a bill, in endorsing, adds the words "without recourse," meaning without recourse to him. The bill then becomes a *one name bill*, and naturally a higher price is demanded for cashing it. Some merchants systematically conduct their discounting business on this principle, and are willing to pay much heavier charges for discount in consideration of being relieved of responsibility for their customers' bills. There are bill-broking firms and companies who cultivate this class of business, making a specialty of it, and taking means to acquire the wide range of information necessary to do it safely.

with regard to just such advances of money by a banker to a customer.

A man in business, needing supplies of money for his operations, will frequently prevail upon some neighbor, relative or friend to become his surety; or, to speak in common phrase, to endorse his paper. Such an endorsement is of an entirely different character from that of the owner of a note or bill, who passes his title on to a succeeding holder for value by endorsing it. The endorsement now referred to is of the nature of a surety or guarantee.

With regard to the value to be attached to such endorsements much confusion of thought exists. A banker who lends ten thousand dollars on the endorsement of another man, reputed to be worth twenty thousand, might seem to be undertaking a very safe operation; but experience teaches that he might be leaning upon a broken reed. The endorser might be surety for other persons also, and the aggregate amount of these obligations might be far beyond his means of meeting them. Such cases have arisen and have opened the eyes, more than once, of confiding bankers, and shown that before lending money on the strength of a certain endorser inquiries should have been made whether he was not involved in the success or failure of half a dozen commercial enterprises over which he could exercise no effective control. But, besides this, there is another very important consideration. An endorser becoming surety for ten thousand dollars, might be utterly unable to pay as much, even if he had a real surplus of twenty thousand, without winding up his own business. This surplus might consist in land, buildings and machinery, on which the very existence of his own business depended. And it might be, and probably would be, impossible for him to diminish his own capital by the sum necessary to pay the amount he endorsed, without ruining his own credit. In this instance the banker would almost certainly be confronted, in case of need, with a proposal from the endorser to release him, on payment of only a portion of what he had endorsed. If he refused, and demanded what was due, he might find himself the plaintiff in a vexatious lawsuit, and only obtain judgment after long delay, by which time the affairs of the endorser might be put into such a shape that to collect the debt would be impossible.

The banker, in considering an endorsement, will do well to remember that what he wants from the endorser is assurance of repayment *at the time promised*,—time being of the essence of the value of the security. He must therefore consider whether the endorser is in such a position that he could pay the amount *when called upon* without embarrassment. Many a man is in a position at all times to meet his own engagements who would be seriously embarrassed to pay the debts of another person. It is sometimes said by a borrower, to a proposed endorser, that it is a mere *matter of form*; that he, the borrower, will be sure to pay the note at maturity. And not a few endorsers have been incautious enough to believe it, finding out to their cost that to guarantee another man's debt is no mere matter of form, but a very solid reality.

VARIOUS CLASSES OF ENDORSERS.

There are various classes of endorsers, as there are of borrowers. There are endorsers who treat the matter so lightly that they will endorse for any amount, and never think of keeping a record of their responsibilities. These are a class for a banker to avoid. On the other hand, there are endorsers who are keenly alive to the responsibility they undertake, who consider carefully, and insist on knowing accurately the position of the borrower before undertaking that he shall pay a certain amount of money on a certain day. A prudent endorser will take means to have an efficient oversight of the borrower's business so long as the obligation endures; considering, very properly, that his guarantee gives him a right to this position. An endorser of this kind is esteemed, and very properly so, a more valuable one than another of much larger means who would neglect such precautions, especially if he has had more experience in business than the borrower and is able to give him valuable hints as to his business. Thus a father's endorsement for a son just commencing business is of a particularly valuable kind, or that of the senior partner of a firm, who, after retiring, consents to guarantee a certain amount of their liabilities.

There is another class of endorsers that used to be much more common than at present; namely, the *professional* endorser, who is known in the community as such, and endorses or guarantees for a commission. Such men, generally, have some capital at command, but the value of their endorsement largely depends on the prudence with which they carry on their business. A prudent endorser of this class will always scrutinize carefully the position and character of the borrower. He will make accurate record of his guarantees, as if they were his own promissory notes. And he will take care never to allow his name to remain in default. The endorsement of such a man, so long as he is commercially "good," will come to have a peculiar value in a banker's eyes, as being almost equivalent to a certificate that the borrower is both able and willing to pay his debts. This class of man, however, is rapidly disappearing.

There is another class of endorsements to be considered; namely, that of more persons than one on the same note. A loan will sometimes be proposed to a banker, generally in connection with some public enterprise, in which the notes are to be endorsed by four or five individuals. This class of endorsements, however, often proves very unsatisfactory, for although each of the endorsers is responsible for the whole amount of the note, it rarely happens that any one of them is willing to pay the whole amount. He will come to a banker and offer to pay his share and request a discharge, which, of course, the banker will not grant. Consultations then follow between the parties as to how the obligation is to be met, in which one will offer to do this, and another that, but seldom coming to an agreement satisfactory to the banker. Not infrequently

they quarrel among themselves, each one of them declaring that he will fight to the last in resisting payment. The banker then finds himself involved in half a dozen lawsuits, and it will go hard if some clever lawyer, employed by one of the parties, does not find a loophole for evasion, or delay, owing to some peculiarities in the case, possibly suggested by false swearing or confused testimony. We know how a clever counsel can confuse a witness so much as to get him to admit almost anything, and a banker in the witness-box is just as liable as other people to be wheedled or bullied into admissions of a damaging nature, such as may be almost fatal to his case.

There is another consideration with regard to these multiple endorsements; namely, that by law each endorser on a bill has recourse upon the preceding one, this being founded upon the practice of passing notes from one man of business to another for a valuable consideration, as used to be common in the business world. In this case it is perfectly equitable for the last endorser to call upon the preceding one to pay him, and so on, until the maker or acceptor is reached. This law prevails even in such cases as have been referred to, although the circumstances are entirely different. There is no method under our law of bills of exchange by which a number of men can endorse a note, one after another, so as to be jointly and severally liable, and avoid recourse upon previous names. It is therefore better that the persons proposing to become security should become joint and several *promisors*, or joint and several guarantors on a separate instrument.

DIFFERENCES BETWEEN ENDORSEMENT AND GUARANTEE.

This leads to the question of the difference between an endorsement and a document of *guarantee*; respecting which it is well to note some points for consideration.

The first point is that endorsements require to be on each separate note, and that when there are several endorsers for the same debtor on separate notes, and difficulties arise in the circumstances of the maker, each endorser can claim the right out of any security realized to have his notes paid in the order in which they become due. This operates, in some cases, very much to the creditor's disadvantage. Moreover, if the time for a loan is long, as it requires to be in some lines of business, notes require to be renewed, failing which, they lie under protest in the banker's hands. Now, the endorser may not be at hand; he may be, in these times of travel, at a considerable distance; or he may, in some cases, refuse to endorse a renewal, and insist on the banker forcing payment. If the banker refuses, as being contrary to agreement, the endorser may pay the note himself, and sue the maker, to the great damage of his credit, and with a danger of bringing about a stoppage of his business.

A guarantee, however, obviates all these difficulties. But such a

document requires to be drawn with exceeding care—so as to avoid bringing the banker himself under obligations upon which a defense might be hung in case of suit. There is scarcely any instrument capable of giving rise to so many conflicting points as a loosely drawn guarantee. For this reason the banker will bring to his aid the best legal talent available to prepare a proper form of instrument applicable to general uses. This guarantee should provide for renewals, changes of security, additional advances, partial payments and other contingencies, and in most cases should bind the guarantor to pay a specific sum whenever called upon.

But a guarantee may be taken for a running account, and made to cover the balance due on such an account, whenever it may be struck. In some cases, indeed, where an account is a complicated one, and consists partly of trade bills and partly of securities of various classes, a guarantee may be taken for the final balance remaining after other securities are exhausted. This word *exhausted*, however, in a legal document, requires to be very carefully defined. But one thing a banker needs to be particularly careful about, viz., not to introduce special conditions, of his own motion, into a form of guarantee which has been prepared by his solicitor. He will always find it prudent to let his solicitor insert the special conditions also.

Of the two forms of personal security, therefore, an endorsement is the most simple and the least open to misconstruction, and affords the least opening for a vexatious defense in case of a suit. And when the note guaranteed is a single transaction, and not a part of a general arrangement for advances, it is the most advisable form of personal security that can be taken.

But there is this to be said, that a guarantee is always *witnessed*, and is generally signed in the office of the bank, or the bank's attorney; while it not infrequently happens that the maker of an endorsed note brings it to the bank for discount, and expects it to be passed without further ceremony. *But a prudent banker will invariably require the endorser to be present when he affixes his signature, especially when the amount is large.* For an endorsement may be forged; or, even if the original signature is genuine, the *renewal* may be forged. An endorsement of a loan bill, in fact, as it is a document of guarantee, should be treated with as much care and ceremony as if it were a deed to be signed, sealed, and delivered by the party to it.

LOANS SECURED BY MERCHANDISE.

It is a fundamental axiom in banking that all discount loans for commercial firms should rest on, or be represented by, salable goods, on which no other person has a claim. Exceptions there are, as have been noted, but the exceptions are few. It is here that banking differs from mere money-lending; its loans should be founded, not simply on valuable property or even valuable goods, but on goods that are *salable*, that have

a *market* value, that are dealt in between man and man, and between country and country. In other words, BANKING IS THE HANDMAID OF COMMERCE. But although these things are so, it is not all banking discounts or loans that constitute a claim on any particular goods. It cannot be said, for example, that a trade bill is represented by such and such lots of dry goods, groceries or hardware in the store of the person who has made the bill. They are not earmarked and set aside for that purpose. There are, however, banking loans that do rest on goods that are specifically designated and set aside for the purpose.

The security for this class of loans has now to be considered.

The simplest and most natural form of lending money on the security of goods is that of the *pawnbroker*, so called—a very misleading name—for his real business is to lend money on goods that are left in his possession. It is a most simple business, requiring scarcely any capacity to carry it on, except a fair judgment as to what goods will sell for. The pawnbroker does not rely on any legal documents to secure him and he cares nothing about the standing of his customer. He has the goods themselves, and it is his own lookout if he does not take proper care of them. The pawnbroker's loans are, however, not commercial. No man, in a centre like Chicago or Liverpool, would deposit a thousand barrels of flour with a pawnbroker and get an advance on them. Such loans are part of the operations of commerce, and would be applied for to a banker.

Now, as a pawnbroker keeps a shop or a warehouse in which to store the goods he has lent money upon, it would naturally be supposed to appertain to a banker's business to have a warehouse, wharf or yard, with conveniences for the storage of various classes of goods owned by his customers. This would strike anyone as the most reasonable, natural, not to say safe, mode of transacting business. "Bring me your goods," the banker might say, "and I will lend you money upon them." In some parts of the world this is actually the mode on which banking loans on goods are made. The bank owns as a part of its machinery (so to speak) a commodious warehouse, yard or wharf, in which it requires all goods to be deposited on which advances are made. These are, of course, in charge of its own officers, and the bank attends to insurance at the charge of the borrower; charging him also, directly or indirectly, with the storage.⁶⁵

That this tends in a remarkable degree to the safety of such loans goes without saying. The only danger to the banker in that case is that he may overestimate the value of the goods, or forget to take into account the chance of decline.

This mode of procedure, however rational it may seem, has never been adopted by bankers generally. The bankers of Great Britain, gen-

⁶⁵ The Imperial Bank of Germany conducts its business on this principle, and is the owner of many warehouses in different parts of the Empire, in which are stored all goods that are advanced upon.

erally speaking, know nothing of it;⁶⁶ neither do those of the United States or Canada. They keep no storehouses or yards in which to place goods they have loaned upon; though doubtless many of them have wished they had done so when they have been deceived by documents purporting to represent goods. All the loans in their books stated to be on *goods* rest in fact upon nothing but *pieces of paper*; or rather let us say, on what is written on pieces of paper. Just as an American Treasury certificate for five thousand dollars represents that amount of actual coin in its vaults, so are these pieces of paper presumed to represent so many tons of iron, bags of wool, barrels of flour, or bushels of wheat. And, to say the truth, there are such documents which carry almost as much assurance with regard to goods as the gold certificates of the American Treasury do with regard to money. When the officers of a well-known warehousing or dock company issue a certificate that they have received a thousand barrels of flour from John Smith or a thousand bales of cotton from MacGregor & Co., and that they will deliver the same on production of the certificate duly endorsed, a banker will feel almost as much assurance in advancing on such a document as if he had the goods in his own possession.⁶⁷

This is more especially the case if such documents are registered, as they are in Chicago and other grain warehousing centres of the United States. The truth is that the *value of the document is in the responsibility of the party issuing it*. This is a principle that is often forgotten, and it is here repeated, that it may be better remembered. The value of the document is in the responsibility of the party issuing it. There are various grades of such documents as there are various grades of bills and promissory notes, the question always being, in the first place, will the issuer of such a receipt sign the document unless he has the goods in

⁶⁶ It has, however, sometimes happened that in conservative Great Britain, exceptional measures are taken with regard to property advanced upon. A bank in the "Black Country" was at one time in the habit of advancing on pig iron stored in a certain borrower's own yard, or in the yard of the blast furnace where it was produced. This customer having once removed this iron so advanced upon, the bank adopted the plan of leasing a small area in some furnace yard, fencing it in, placing it under lock and key, and requiring iron advanced on to be deposited there. This plan proved effectual.

⁶⁷ There are, however, cases at times which shake a banker's confidence in this theory.

The writer once had to do with a draft secured by a bill of lading for goods signed by the shipping officer of a railway station on the company's regular form. But such goods were never delivered at the destination indicated. And investigation brought out the fact that such goods were never received at the station. The bank contended that the railway company was liable for the acts of its own officer done in the regular course of business. This was denied, the company claiming that they were only liable for goods they had actually received. And this contention was upheld, though it really did not touch the point. The point was, a wrong having been done by an employee of the company in the ordinary course of his duty, who is to suffer for the wrong—the company that employed him, or a perfectly innocent party?

The decision is calculated to undermine the confidence entertained in bills of lading as security.

possession? And, secondly, will he take due care of them and not let them go except to the right party? And, if he fails to do either of these things, is he of sufficient responsibility to *make his engagement good?*⁶⁸

In Canada and the United States the issuing and advancing of these documents is carefully regulated by law; the object being to facilitate bank advances on the great staple productions of the country and so to assist in that great annual movement upon which all internal commerce depends.

This law of warehouse receipts, let it be borne in mind, traverses the law of chattel mortgage in two respects. The ordinary law is that a bank cannot make a new advance on the security of chattels; and also, if a chattel mortgage is given to secure an existing debt, it must be entered in a public registry within a certain number of days. But the warehouse receipt law enables new advances to be made on goods, and gives the lender a valid title to them against all comers, subject to certain restrictions. It also dispenses with the necessity of registration, though it is often contended that it would be better in all cases if registration were required. Under this law bankers can advance on documents in the same manner that they discount bills, looking to the names of the parties and considering also the genuineness of the document itself.

⁶⁸ There is this difference, between a banker advancing on goods in his own possession and advancing on a warehouse receipt, that the document may be forged. The certificate of registration may be forged also, and the banker may be deluding himself by an imagined security of goods, while such goods have no existence whatever, or may have been pledged to another party on a genuine document.

CHAPTER XXVI.

SECURITY AND SECURITIES—Continued.

SECURITY BY AN OWNER'S WAREHOUSE RECEIPT—BAILEE RECEIPTS— BILLS OF LADING—SECURITY ON REAL PROPERTY.

IN the last chapter was considered the security afforded for advances on goods by means of a formal document acknowledging receipt of them and undertaking to deliver them when called for, on surrender of the document. The legislation respecting these documents, and the title they conveyed, was also adverted to. In all these two persons were concerned—the person who deposited the goods and the person who undertook to take care of them, the latter being a warehouse-keeper, or wharfinger, by occupation. But in process of time, and what may be called the evolution of business, it came about that another class of receipts or certificates were proposed as security. The borrower, in small towns especially, often having a store, warehouse or yard of his own, the question was asked, why should he not be the warehouseman of his own goods, and give his own certificate of possession, borrowing upon that? These receipts were warehouse receipts undoubtedly, and the fraudulent issuing of them, or making away with the goods, would be equally an offence against the law. It thus came about that bankers in places where no professional warehouse-keepers were to be found became willing to advance money on this kind of document.

The law for some time, however, did not recognize them as conveying title in the same manner as the former documents did. But in time especial clauses were added to the Banking Act legalizing this class of receipts, but defining very strictly the kind of goods for which such certificates could be given. Strict provision was also made that the document should be handed to the banker at the time an advance was made, or that the banker should hold a written engagement from his customer to lodge such a document with him. In every other respect the provisions relating to the older classes of receipts were made applicable to these receipts.

It is evident, that these restrictions have in view the prevention of what might prove to be a great abuse, viz., that a dealer in imported or manufactured goods—such as dry goods, groceries, etc., should have it in his power, while such goods are still unpaid for, and without removing them from his shelves, to pledge them for advances, thus making it easy to deceive or defraud his creditors. These creditors, under such circumstances, would find that the stock in trade on which they relied for payment had been so pledged as to give a bank a title to it, thus creating a preference of a very inequitable kind. The Act therefore, very

properly limited the class of goods that could be pledged by the owner's simple certificate to such articles of merchandise as are invariably bought for cash, viz., all kinds of agricultural and natural productions. There could then be no conflict of claim between one class of creditors and another.

These documents being thus legalized, gradually came to have, in the minds of inexperienced bankers, the same weight and consideration that attached to the certificates of a professional warehouseman. And in the consideration of the various classes of loans and discounts in their books they would describe these as "secured" and place them in the same category as advances secured by goods stored in a public warehouse or wharf.

But little consideration is required to show that there is a fundamental difference between them. The warehouse receipt, or dock warrant, properly so called, is the receipt of a person who has no interest in the goods except to take care of them, and deliver them in good order when called upon. This is his business. For this service he receives due remuneration, and his whole reputation and standing are involved in performing the duty well. He is practically, so far as the banker is concerned, in the position of a guarantor holding specific goods with which to meet his obligation. There is no inducement to him to give a certificate unless he has the goods; and every possible inducement to refuse to give them up except to the banker who holds his pledge.

These safeguards, however, are wholly wanting when a man borrows money on his own pledge. There is nothing, except a borrower's honor, to prevent his writing out a certificate before he has the goods in possession, or for a larger quantity than he actually has in store, or for goods of a higher brand than he has in stock. Even if a banker takes the precaution to have the goods examined, it is next to impossible for him to arrive at an accurate statement, either as to quantity or value. Then, as to the other point of safe custody and delivery, it is impossible to prevent the owner, when in possession, from taking the goods into the stock which is being manufactured, and selling and delivering the goods produced. Nay, it is not uncommon for a banker to give his consent to this, either in general terms or specifically, either verbally or in writing, so that an *understanding* is established, or supposed by the borrower to be established, such as can be pleaded in court against a charge of wrong-doing. From all which it is evident that the pledges of the owner of goods are not to be looked on in the light of an actual security. It does not make secure in the manner that intervention of a third party does. It amounts, in reality, only to an additional promise on the borrower's part. Having already written a promise to repay a certain sum of money on a certain day, he adds to it a promise to deliver certain goods on a certain day. It is only a promise added to a promise, both by the same person, and not an engagement by another person.

There is, however, this to be said, that while the pledge of a promisor is weak in not making sure that the goods pledged are actually where they are represented to be, it is a strong security when the goods are actually there, and the borrower becomes unable to pay his debts. They cannot be seized in judgment; and they do not pass to an assignee in case of insolvency. The law holds them strictly for the banker, until the debt secured by them is paid. But he must be able to prove, in case of dispute, that the debt attaches specifically to those goods. Neither a proper warehouse receipt nor a borrower's own pledge can attach *generally* to a debt due to a banker. A specific sum of money that can be so identified must be lent on certain specific goods that can be identified; otherwise the security will not hold.

There is, however, this safeguard; that a pledge of this character, if not *bona fide*, is subject to the same criminal penalties that attach to a document issued by a third party. If a man gives a banker a pledge on goods that do not exist, or are not what he represents them to be, he exposes himself to a criminal prosecution. And if, after giving a pledge on goods that actually exist, he removes the goods without the banker's consent or without accounting for them, he is equally guilty. Such is the law; and, to a certain extent, it is efficacious. But when a trader in exportable goods becomes pressed, as he sometimes may be unknown to his banker, the temptation is very great to raise money by the easy process of writing out a pledge. And a man, without any intention of ultimately defrauding, will avail himself of this relief, trusting that he may be able to redeem the pledge in course of business. Experience, moreover, has proved that is not easy to obtain conviction when prosecution is resorted to. Juries are unwilling to convict when a plea is entered that there was an *understanding* (that dangerous word) with the banker that goods might be removed in case they were needed for the borrower's business—as in the case of a miller who has pledged wheat in his own store and needs it to fill an order for flour.

The sum of the whole matter is this, that individual pledges have a real value with men of probity and honor, and also, that with men whose sense of honor is not high, the fear of punishment will ordinarily restrain them from issuing false pledges, or removing goods; but that this fear is not sufficient to restrain such men when heavily pressed for money. Further, that in either case, if the goods actually exist, and the security has been properly taken, the pledge will hold the goods for the banker in case of judgment or insolvency.

But no banker of experience will consider a debt absolutely secured by reason of his holding the borrower's pledge.⁶⁹

⁶⁹ A common mistake with regard to the security of these documents has arisen when they have been taken from manufacturers, whose stock of raw materials is constantly being converted into manufactured goods. The raw material in the yard or warehouse today, is found next week in the factory, being replaced by other raw material of the same description, but not that upon which the money was lent.

It is sometimes supposed that a personal pledge can be given for a general

BAILEE RECEIPTS.

In the case of all goods and merchandise pledged to a banker, the time comes when they must be removed; and, in modern business, the removal will be either to a ship or to a railroad. Now, during the process of removal it is impossible that the security before mentioned will hold the goods. They must be released from the warehouseman's custody, and until they are loaded on board ship or placed in custody of a railway company, a hiatus necessarily arises in which there is no security to the banker at all, except what is generally known as a "*bailee receipt*." This is a document somewhat similar to the pledge which has been discussed, and is given by the owner of the goods during the time they are in transit. In this document the owner acknowledges to have received certain specified goods for shipment by rail or steamer, as may be; constituting himself a *bailee* for the same, and engaging to deliver them as directed. A breach of this engagement is a criminal offence. Upon the lodgment of such a bailment with the banker, the custom is to surrender the warehouse receipt, to be exchanged, after reasonable delay, for a steamship bill of lading—or a railway receipt. When a banker gets either of these, his anxiety is generally at an end, always supposing that the goods are worth what he has advanced and that the document is genuine.

BILLS OF LADING AND RAILWAY RECEIPTS.

When the process previously described has issued in the shipment of goods by steamer, the captain or agent signs that important document called a Bill of Lading, making the ship and its owners responsible for safe carriage, and delivery of the goods. This document insures that the goods are on their way to a definite destination. The owner of the goods, who has had them in his own charge, for a time, now draws upon a purchaser or consignee and attaches the bill of lading to the draft together with a document of insurance; the law giving the banker the same position now with regard to the goods that he previously had as the holder of a warehouse receipt. The goods on that ship are his, until the draft is paid, and the security to the banker on the transaction is as complete as a mortgage on real estate is to a

stock, let us say, of iron in the yard, or wool in the warehouse, such as may be, at any time, found there. But this kind of pledge will not stand the test of a lawsuit or an assignment, unless it can be shown that the stock has not been changed since the pledge was given. The law does, however, provide that when wheat is changed into flour, logs into lumber, hides into leather, or dressed hogs into pork, the pledge shall attach to the manufactured article. If the same can be identified, which is sometimes a difficult business. But bankers have learned to take care, in lending money upon pledges of this kind, that the borrower shall have no other creditors. There is, too, a method of lending upon raw material, which is prevalent in the lumber trade, namely, that the logs are branded with a certain mark, by which they are identified as the goods that have been advanced upon.

money-lender. The one point a banker now has to think about is whether the goods are worth the amount drawn against them. This consideration, however, is dealt with in the chapter on trade bills, or bills drawn in sterling money.

Having thus considered the various points arising out of security by endorsement or guarantee, and also by security of goods, either *in situ* or *transitu*, it is in order to consider other forms of security met with in banking.

Of these some are met with in the active prosecution of business, while some come to a banker when additional security is demanded. The last will be treated of first.

In ordinary loans the customer offers security at the inception. In real estate it is the banker that *demand*s it.

SECURITIES RESTING ON REAL ESTATE.

The banking law of Canada differs from that of Great Britain, in that it prohibits loans on real estate security. A banking transaction cannot be *initiated* by a mortgage on real property. Former disastrous experience led to this prohibition, and more recent experiences in Australia, of a much more distressing character, have shown the wisdom of adhering to it. One, at least, of the greater banks of Canada, after a long career of usefulness to the infant community, was finally forced to succumb owing to the fact of its resources having been engulfed, so to speak, by real estate transactions. In the days when this bank was doing its most active business, the loan and mortgage companies, now so common, were almost unknown. Only one company, an English one—"The Trust and Loan Company of Canada"—existed. It was impossible, however, for this one company to meet the needs of the vast stretch of country—then known as Upper Canada—and now called Ontario. It came naturally about, therefore, that as loans were required for clearing land, improving property, and building stores, mills and factories, recourse was had to the banks of the time; and to this one bank in particular. The true principles of sound banking were little understood in these early days. If a man was possessed of a piece of land, large or small, encumbered or unencumbered, he was considered to be an eligible customer. Many of the loans made were paid off in the course of events, but large numbers were not, and remained on the bank's books year after year. It thus came about that the mass of undigested and indigestible securities in the shape of promissory notes of real estate owners, many of whom were domiciled in the back woods of those days, went on constantly increasing, until the bank could carry them no longer, and fell buried, so to speak, under their ruins.⁷⁰

⁷⁰ It seems hard to realize, and might be deemed incredible to one not familiar with the early history of the country, that the author was well acquainted with a resident of Toronto who remembered the time when the whole stretch

Yet, securities on real estate have their use to a banker who knows how to use them, and have saved many an account from degenerating into a bad debt. For although real property is a bad foundation for a banking loan, when it is the only foundation, it is a strong support to a mercantile account whose main security is of a commercial character. It enables a banker to nurse a customer through bad times with confidence when otherwise he would be obliged to allow him to succumb. This is so well understood in England that a lien upon a customer's property is considered one of a banker's strongest safeguards, and as the law allows a lien to be created by the simple deposit of title deeds with a memorandum describing the purpose, such a hold upon a customer's real property is very common. In Canada, however, no such custom exists. A banker's lien cannot be established without a regular mortgage, duly registered, and this must be *after* the inception of a loan, not at the time.

The term Real Estate, though definite enough in law, is so indefinite in fact that some bankers have almost prohibited the use of it in correspondence with their branches. When the manager of a country branch, for example, writing of a somewhat doubtful account, informs the board that it is secured by "real estate," he will certainly be asked for more definite information; and very properly, for real estate is of so varied a character that unless specific information is given, the word conveys no practical meaning, so far as actual security is concerned.

It is desirable then to consider real estate from a banking point of view, and to point out what property is desirable and valuable in that connection, and what is undesirable or worthless.

Real property in Canada may be classed under the following heads:

- (1) Farms.
- (2) Land capable of being made into farms.
- (3) Stores or dwellings in towns, cities or villages.
- (4) Vacant lots in towns, cities or villages.
- (5) Factories, saw mills, tanneries, etc.
- (6) Timbered lands, when owned as a freehold and used for lumbering.
- (7) Mines.

Any one or more of these descriptions of real property may be offered to a banker as security for an existing debt, and it is certainly the business of a well-informed banker to make himself sufficiently acquainted with them all to be able to judge what value to attach to the

of country between that city and Lake Huron was almost unbroken forest. Only three settlers had penetrated into its vast solitudes, fighting their way through bush and swamp and slowly making clearings. In a region entirely destitute of roads, bridges or dwellings:—then given up to bears, wolves, and Indians, but now full of prosperous towns and cities.

It was some time after this that the Bank of Upper Canada was established; but its early days were passed when forests covered most of Ontario and the towns and cities of the present day were mere hamlets.

security or if it has any practical value, present or prospective. An intelligent manager of a branch will certainly make himself acquainted with the conditions and value of farm and town property, in his district. And a general manager or president will always be adding to his stock of information with regard to property in those parts of the country where the business of the bank is carried on.

When a banker is offered security on real property the first point to consider is what will be expected of him if he concludes to take it. In some cases a debt may be in such a doubtful position that a banker would take any security he could get (any security being better than none) not scrutinizing it very carefully except to obtain assurance that the taking of it involves no responsibility. But real estate is sometimes offered by a debtor who is in a comparatively good position, it being perfectly understood, though it is not formally expressed, that the banker in consideration of the security will be less exacting and more indulgent in his treatment of the account. And this he may be in various ways.

When security is taken under these circumstances, a banker will naturally, to begin with, arrive at an understanding of what value the property is as security; where situated, of what character, whether the debtor has a clear title to it, and whether it is clear of encumbrance. These last are both legal points, and upon them both only the bank's solicitor can give accurate information.

If the title is clouded, a banker will do wisely to refrain from taking security until it is cleared; otherwise, he may find himself made a party to a troublesome lawsuit. But if the property is desirable in itself, he will do well to insist on steps being taken to have the title cleared. This preliminary being arranged, the banker will next have to consider the question of encumbrance. If there is no encumbrance at all, the case will be simple. Whatever value there is in the property will accrue to the banker's benefit. But if there is an encumbrance, a banker's judgment and experience require to be called into play in dealing with it.

No sane man would ever *lend* money, as a matter of business, on encumbered property; or, at any rate, if he thought well to lend at all, he would lend enough to pay off the first mortgage. But it may be well worth a banker's while to *get security* for an existing debt on an encumbered property. Everything depends on the *amount* of the encumbrance. If that amount is not more than one-quarter the assumed, or assessed value of the property, the probability is that a second mortgage would yield him something. But if the encumbrance amounts to half the value of the property, the security of a second mortgage is problematical. The valuation may be too high; it generally is; or the interest of the first mortgage may have accumulated and rank as an addition to it. It has happened, in a banker's experience, that the unpaid interest has swallowed up all reversionary interest in a valuable property, making the second mortgage worth nothing.

There are other considerations also. Before anything can be recovered from a second mortgage a banker will find it necessary to pay off the first. He thus adds more to an already existing debt. Yet, when property comes to be sold, the fact that a bank holds it has a depreciating tendency, as all experience proves. A banker, therefore, may have the mortification of finding that a property, when he has the whole benefit of it, will not yield him as much as he paid for the first mortgage; making it apparent that he would have been in a better position if he had never taken a second security at all. A banker, too, has to consider also that while he must disburse *cash* in paying off a first mortgage, it is almost an impossibility to sell without accepting a mortgage for a large part of the purchase money. He thus finds that to the original debt, which was more or less of a lock-up, he has added another, which being in the shape of a mortgage, is practically, a lock-up also.

The question of encumbrances deserves especial care when the property is connected with a manufacturing business. If the business is unsuccessful, the property will depreciate by an amount that would seem incredible to any but one who has had experience.

It has sometimes happened to a banker to have the mortification of finding that, when he has paid off an encumbrance of only one-quarter of the estimated value of manufacturing property, the sale has not realized even half of this paltry sum.

The best form of real estate security, generally speaking, is that on shops and offices in one of the main streets of a commercial city. The very worst, as a rule, is a mill, a factory, or a tannery. A banker will find it prudent, as a rule, though he may take such a security, never so to rely upon it as to be more indulgent either as to time, rate, or amount than he would be had he no such security at all. And this more particularly if the property is encumbered, no matter how small the encumbrance may seem.

The securities that bankers may take in the active prosecution of their business are so fully opened up in the chapters on Loans that it is needless to refer to them again. The only additional remark needed is to state that a merchant, sometimes, instead of discounting a certain amount of trade bills will obtain an advance, pledging the bills as security. This may be a more economical process in case he only requires the loan for a shorter time than the bills, on an average, have to run.

CHAPTER XXVII.

BANKING AND COMMERCIAL LOSSES.

VARIOUS SOURCES OF LOSS.—PARTICULAR INSTANCES CITED—CITY OF GLASGOW BANK COLLAPSE.

THESE are coupled together in this treatise for the reason that there is generally a very close connection between them.

A bank cannot lose money by a commercial customer until that customer, except in the cases of deliberate fraud, has lost all his capital, and is unable to pay his debts. It is also not seldom the case that a merchant fails by reason of the losses he, in his turn, sustains by *his* customers.

He may indeed, especially in some branches of trade, fail because of a heavy fall in the price of some commodity he deals in. This is a contingency that every wise merchant will take special means to provide against.

Then there are the losses that a merchant may suffer by *speculation*.

These are not legitimate losses. They ought not to occur at all. But they do occur in sufficient numbers to make it necessary for a banker to take them into account.

Both banking and commercial losses are much influenced by the condition of the trade of the district in which operations are carried on, also by times of prosperity or depression, either in a particular district or in the whole country.

It is, for example, well known that failures are much more common in new countries than in old; and in the newer parts, let us say, of the United States and Canada than in the older.

They are also more common, other things being equal, amongst men in new industries than in well established ones.

Of all these things a banker must of necessity take more account than a merchant, for the latter in doing business in a new community, if he incurs greater risks, can generally make greater profits. But a banker is rarely able to do this; hence the importance to him of care in having loans adequately secured; also of scrutinizing business bills so as to guard against mere accommodation paper being taken under that guise. With such precautions as every banker ought, in the reason of things, to take, it should be the rule, that even if his customers fail, the security should be capable of such realization as will save him from loss.

Passing, however, from general observations to particulars, it is necessary to take note of both commercial and banking losses as matters of *fact*; together with the reasons for failure in one case and loss in the other.

PARTICULAR INSTANCES OF LOSSES.

The most effective way of doing this, and it will add point to all observations on the subject, will be to cite *particular instances* of losses. Most of these have come under the author's own observation, and have made an indelible impression on his memory. The rest were well known at the time to the commercial and banking world. Names, dates, and places will, of course, not always be given, for it would not be proper to do it; but the cases cited may be relied upon as narratives of actual events; every one of them conveying some practical lesson for future guidance.

More than fifty years ago no goods in a certain line of English manufacture were of higher finish or more beautiful design than those made in the great establishment of B. & Co., in Yorkshire. The firm had a warehouse in London, and a large part of the goods they produced were sent there, and sold to wealthy residents of the capital, or distributed throughout the Kingdom from that centre. The leading noblemen of England were their customers; and on one occasion they manufactured a magnificent set of goods for the King.

The members of the firm lived in expensive style, and took the lead in the fashionable society of the neighborhood. But to the bankers of the district, they came, in course of time, to be known as continually short of money.

They were, however, the kind of people sometimes called "clever financiers," and having several banking towns within easy distance, they managed for a considerable time to get cash for checks, by drawing sometimes on one bank and sometimes on another, varying the operation by drafts upon their house in London; that house repeating the operation conversely.

But as time went on these London drafts occasionally went to protest. Bankers in the neighborhood got more and more shy, and at length refused to cash their checks or bills at all. Finally, the firm came to a stop, and went into bankruptcy.

When the accounts in bankruptcy were presented, the creditors were astonished to find that a large landowner in the neighborhood, to whom their works belonged, was a creditor for a sum representing the accumulated rental of some twenty years, or about £20,000 and interest! This rent, his steward (with his own good-natured concurrence) had allowed to run on year after year without pressing for payment, largely out of consideration for the workmen employed in the establishment.

The estate paid practically nothing. The works were never reopened. The family disappeared from the district. Many local creditors suffered losses they could ill afford, but the bankers spoken of had been wise enough to act upon indications of weakness; and, having taken measures in time, lost practically nothing.

The cause of this collapse might be largely traced to the good nature

of the landlord; for it encouraged the firm in a reckless style of doing business.

Of artistic tastes themselves, and fond of new designs, they were continually bringing out rare and expensive styles of goods; concerned only with keeping up their reputation, careless whether they were making profits or not. They were in reality living upon their landlord during all the years of the business; and he, of course, was the chief sufferer by the failure. If he had done his duty to himself and his estate, they would have been compelled to manage their business so as not only to make beautiful goods, but to make profits (or retire); and might have become a wealthy and prosperous concern, as numbers of other manufacturers in that district had done and are doing at this day. But the good nature of their landlord was their ruin. And it has to be added that too easy a supply of money has paved the way to ruin of many a man in Canada.

Some years after these events the commercial community of Liverpool was startled to learn that one of the leading banks of the city was in difficulties, and had been compelled to apply to the Bank of England for assistance. They were still more surprised to learn the cause of the embarrassment, which proved to be wholly owing to *inordinate advances to a single firm!* This firm was in the habit of receiving consignments of merchandise from foreign houses on a very extensive scale, and accepting bills against them. This was their business. They had carried it on successfully for many years and had prospered.

At this time, however, the financial and mercantile position had become clouded. Markets were dull. Goods were difficult to sell, and steadily falling in value. Meanwhile the house went on accepting as usual. But their acceptances were constantly maturing, and not being willing to sacrifice the interests of distant consignees, instead of bringing their goods to sale, they warehoused them, obtaining advances from the bank to retire acceptances.

It so happened that at this time the manager of the bank, well known as an able man in the community, was absent for a considerable period from ill-health. He had gone abroad, and it was difficult to communicate with him. The second officer and the directors had not the nerve, and did not care to take the responsibility, of compelling the goods advanced on to be sold, but went on making advances, hoping for a turn of the tide which would save the house from ruin, and the bank from loss.

Thus the advances, which were only some £50,000 at first, went on increasing until they were more than ten times as much, whilst the warehouses of the port were becoming overstocked with merchandise that was steadily going down in value.

The situation was becoming terribly serious. To compel sales, or refuse further advances, would inevitably ruin the firm, and result in enormous loss to the bank, besides demoralizing the market and inflict-

ing loss on other customers. Under the circumstances the Acting Manager and the Directors became utterly demoralized. So all drifted on together, the advances of the bank mounting up week after week until they reached the enormous sum of £750,000.

Then the crisis came. The resources of the bank were exhausted. The *Bank of England*, which had sometimes made advances to the bank (as is often the case in England) in the ordinary course of business, was made acquainted with the condition of affairs, but refused to intervene. The bank perforce stopped payment. An enormous loss resulted in the realization of the warehoused goods. The mercantile firm went into bankruptcy; but scarcely anyone was interested in the firm except the bank, which, by its culpable weakness and mismanagement, had absorbed the whole affairs of the firm into its own hands.

The house disappeared from the seaport. And though the bank resumed business in a reduced form, it never recovered its credit and prestige and was finally wound up, its business being passed over to another institution. The bank was the Royal Bank of Liverpool, and the time 1847.

These disastrous consequences all ensued, first, from the folly of a mercantile house accepting too heavily against merchandise, and allowing it to accumulate instead of bringing it to sale; then, and onward concurrently in the bank's making advances to an unreasonable amount against the same merchandise, and failing in the courage required to face the situation and compel sales; until finally all control was lost, and the bank and mercantile firm together drifted into a position from which there was no recovery.

The whole story is fraught with striking lessons to both merchants and bankers. There was not, however, a suspicion of wrong-doing or fraud by either party. All that could be alleged was a terrible deficiency of good judgment and nerve.

CITY OF GLASGOW BANK COLLAPSE.

This, however, could not be said of the frightful collapse of certain mercantile firms and the City of Glasgow Bank which occurred some years afterward. That collapse was a case of mercantile ambition gradually developing operations spread over nearly all the markets of the world, partly legitimate, but in the end grossly illegitimate; also of banking ambition, aiming to carry larger accounts than any bank in the country; both finally ending in the most astounding financial frauds and disasters of the nineteenth century. Of these operations at first there was nothing worse to be said than that they were far too extended for the capital of the firms interested, and far too extended for the bank itself to encourage by advances. After the operations of the firms became manifestly unprofitable, the bank might have brought the whole to a close with a loss of £50,000 or £100,000 at most. But this the directors refused to face, and went on making advances, hoping for

a turn in the tide which never came. Besides this, the accounts of the firms (there were four in all) were highly profitable, owing to the multiplicity of exchange operations connected with them, and the immense amount of interest they carried. So the advances went on increasing, until they amounted to sums far beyond what had ever been heard of in Scotch banking.

Had their operations, even then, been all based on merchandise, they might possibly have been wound up with no worse result than the bankruptcy of the firms, and the loss of part of the capital of the bank.

There were four firms interested in these operations, differing only in name, for they were so interlaced as to be practically one concern. And the time came at length when they launched into great operations in real estate, and bought not merchandise only, but the land, buildings, and plant by which the merchandise was produced, and this in *many countries*, and to fabulous amounts.

By this time their operations had taken the shape known in commercial circles as "plunging;" that is, buying heavily and selling as heavily, entirely regardless of the condition and prospects of any market in any part of the world.

The natural consequences ensued in the shape of losses to enormous amounts. The bank, however, as in the former case, was under weak management, and became so hopelessly entangled in the operations of the firms that they had to "sink or swim" with their customers.

Then when the purchases of property by the firms necessitated advances of an unprecedented amount, which were inevitably of the nature of a "lock-up," the bank fell into a terrible snare proposed by the astute senior partner of one of the firms, and became parties to the manufacture and negotiation of what were practically fraudulent bills. *Facilis descensus Averni*. The downward road is only too easy. Once embarked in such lines of operation it became impossible to draw back, and the authorities of the bank drifted helplessly on. Yet they were well aware that the bank was "on the road to ruin," unless indeed by some almost miraculous turn of affairs, and that in various parts of the world, these properties could be sold for sufficient to retire the debts of their customers and enable the fraudulent bills to be withdrawn.

But the fortunate turn of affairs never came.

The masses of bills that had been set afloat bearing the bank's name were constantly falling due in London. To enable them to be met, other bills were drawn purporting to be for different transactions of an original character, but which were nothing more than fraudulent renewals.

The firms, as is the manner of men who have embarked on such desperate enterprises, entered upon other engagements, purchased other properties up and down the world, (for the *whole world* was the theatre of their operations), made contracts for other masses of merchandise, all of which necessitated the floating of other masses of bills, the bank being of necessity a party to the whole wretched business.

The volume of bills therefore went on constantly increasing; and as these all finally had their domicile in London, the bankers and bill brokers of the city, in spite of skillful devices kept in operation to deceive them, began to be suspicious, and to confer with each other. "There are too many of these City of Glasgow Bank bills floating about," they said; and the general feeling was that the volume should be curtailed. But none of the parties dreamed of the appalling sum to which the total amounted.

The Bank of England, the great joint stock banks, and the discount houses then began to "*discriminate* against" the bills, as the current London phrase is. The signs of constant renewals became more and more evident, and they refused to increase the "lines" they held.

But the plungers were men of resource; and by this time had become utterly unscrupulous, both in what they said and what they did. False statements were made in confidential interviews. Many of the operations were transferred to other financial centres. More and more ingeniously contrived batches of bills were set afloat, the name or guarantee of the bank being attached to all of them. And as it was known that the bank was on the principle of "unlimited liability" with a circle of stockholders whose wealth in the aggregate was immense, the money markets of the world absorbed them. By such means the inevitable crisis was deferred month after month. All this while the ordinary business of the bank at its numerous branches went on as usual, and was conducted with the usual prudence of Scotch banking.

At length, however, the long-dreaded day arrived, and it came about thus.

Some little time before the collapse, the older banks of Scotland had been approached with a view to obtaining "temporary assistance," as is customary in such cases. These banks, however, had for some time entertained a suspicion that something wrong was transpiring, though none of them had the remotest idea of its real character, and still less of its enormous extent.

When, then, assistance was asked, they naturally (and as is customary) stipulated that an examination of the condition of the bank should be made.

Before the examination had proceeded far, sufficient was revealed to cause the older banks to refuse assistance. This was the end. The Glasgow Bank stopped payment immediately. So did the circle of dependent firms. And very shortly Scotland was convulsed by the astounding revelations that were made of fraud and falsehood on a scale never before dreamed of. Week by week enormous masses of maturing bills were protested; and as the full extent of the affair began to be revealed, London itself stood aghast at the masses of fraud that its banks and bill-discounters had been supporting. For a time almost everything emanating from Scotland was clouded with suspicion.

Strong and solvent firms, and banks that had not the remotest con-

nection with the firms that had carried on these speculations, were suspected. It appeared likely, indeed, that a general banking panic and consequent "run" upon all the banks would spread over Scotland.

But the rest of the banks met the situation with a high degree of wisdom and courage. They determined to act in concert, and announced that they would pay the notes of the defunct bank. This stopped the incipient panic. And as it came to be realized what an enormous financial strength resulted from the whole body of stockholders being liable to the whole extent of their means, the public excitement gradually subsided.

But the alarm of the unfortunate stockholders went on increasing; and when the report of the committee of investigation was received, announcing that the whole of the capital and the reserve fund was lost, and that the shareholders would have to pay in addition the unheard of sum of £5,200,000 sterling to the creditors of the bank, an unparalleled sensation was created, not in Scotland only, but throughout the banking world.

The report of the committee of investigation having made it clear that there had been gross fraud and misrepresentation on the part of the directors, and certain officials of the bank, the Directors, Manager, and secretary were apprehended and brought to trial. The secretary, however, was accepted as a witness, as his plea of acting under constraint, and by order of his superior officers, was allowed.

The trial lasted eleven days, and its revelations were another illustration of the saying that "Truth is stranger than fiction." No romancer or novelist in the wildest of his imaginations could ever have conceived such a series of events as that trial brought forth. They filled the whole banking and commercial world with excitement, and caused the experienced men of the London money market almost to hold up their hands in horror at the operations to which they had unwittingly been parties.

The mercantile failures were on a scale of almost unprecedented magnitude for that time; the liabilities of Jas. Morton & Co. being £2,500,000, of Smith, Fleming & Co., £1,600,000, of Matthew Buchanan & Co., £1,310,000, of James Wright & Co., £750,000, besides others of smaller amounts. The total liabilities of the circle amounted to nearly £6,500,000! The assets were a mere nothing, and almost the whole loss fell upon the bank and its unfortunate stockholders.

For them, indeed, the catastrophe brought about misfortunes that till then were unparalleled. Suicides and madness ensued. Numbers of respectable families were reduced to poverty, and to such an extent did this prevail that a public subscription, which resulted in a very large amount of money being raised, was set on foot for their relief. Thus it came about that numbers of persons throughout Scotland, who would but a short time before have abhorred the idea of receiving aid from without, found themselves compelled by the pressure of poverty to accept the benevolence of the public.

One very extraordinary contingency happened in connection with the liquidation, which up to that time could not have been conceived possible. The Caledonian Bank, a well-managed institution with headquarters in Inverness, had taken as security from one of its debtors *four shares* of £100 each in the City of Glasgow Bank. The shares at the time were well quoted, and considered good property. The name of the Caledonian Bank was therefore on the Glasgow Bank's register at the time of failure, and thus this bank was liable to the extent of its whole capital for the Glasgow Bank's debts. It was therefore included amongst the "wealthy stockholders" who were expected to contribute large sums to make up the deficiencies of other stockholders who were reduced to poverty. The knowledge of this produced great excitement in the North of Scotland, especially amongst the bank's depositors and shareholders. A "run" set in. The bank struggled bravely for a time, but eventually was compelled to suspend payment.

Its doors remained closed for some months. Meanwhile a large guarantee fund was raised, negotiations for settlement were entered upon with the liquidators of the bank, and ultimately £11,000 was accepted in discharge of the liability. It seems incredible that this immense sum had to be paid as the result of taking the Glasgow Bank's shares to secure a trifling debt of £100. But so it was. The bank resumed business with the universal good-will of the people of Scotland, and of the other banks, and has continued in a prosperous condition ever since. But it had the misfortune to furnish this severe object-lesson of the danger of taking unlimited bank shares as security. The danger is not so great since the general adoption of the principle of limited liability; but even now, the large amount of uncalled capital general in English banks might be a cause of serious loss if a similar case arose.

An embarrassing question connected with the disaster was the liability of persons who were simply shareholders as trustees or executors. The liquidators announced their intention to hold all these as liable in their personal estates; a demand which spread consternation over a wide circle.

Executors and trustees naturally contended that the liability attached solely to the assets of the estates they administered; a severe liability indeed in many cases, and inflicting untold misery upon widows and children who were dependent on the provisions of wills made in their behalf. But that there should exist, over and above this, a personal liability of the trustee himself to the extent of his whole fortune, was deemed incredible. It seemed utterly inequitable. Litigation therefore ensued, and a test case being carried to the highest court in the realm, the Judicial Committee of the Privy Council, that court decided that the trustees were personally liable. The judgment was considered by numbers of people, probably the majority, as contrary to reason and equity, but the decision of the court conveyed by the Chancellor was deemed a masterpiece of legal acumen and subtle reasoning. Needless

to say, it broke with frightful severity upon numbers of persons who had never derived benefit from the stock. By such severe measures, however, the whole of the creditors of the bank were ultimately paid.

When things began to resume their ordinary course throughout Scotland, a profound impression took possession of the public mind, not in Scotland only, but wherever the principle of unlimited liability prevailed, viz., that the system was dangerous; and that some means must be devised which would prevent such ruinous disasters again overtaking their stockholders. What was required was some statutory limitation of liability at the outset, so that all purchasers and holders of stock would have accurate knowledge of the worst that could happen to them, in case of misfortune befalling the institution.

Legislation already existed in the Joint Stock Companies' Act by which any company could limit its liability; and amendments were made extending the operation of the act, so as to make it suitable to the circumstances of banks.

One condition of the legal adoption of the principle of limitation was distasteful in the extreme, viz., that any bank or company desiring the benefit of its provisions must add the word "limited" as an essential part of its title.

Many banks were afraid of injury to their credit by the addition of the obnoxious word. In Scotland this requirement was felt to be particularly distasteful to the majority of the banks, inasmuch as the three oldest institutions of the country, the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Company, all claimed that they were on a limited basis already by their charters; and that there was no need for them to add the word to their title. The rest of the Scotch banks therefore, were particularly averse to the use of the word, as they considered it would place them in an inferior position before the public. The leading London banks, however, gradually adopted the principle, enlarging their subscribed capital so as to create a large margin of uncalled liability; and added the word "Limited" to their title. This, as experience has proved, did them no harm. Depositors and the public were alike satisfied; and, gradually following their example, the joint-stock banks of England and Ireland almost all adopted the principle.

The Scotch banks, who had at first stood out, at length overcame their fears, and the same result followed. The whole joint-stock banking of Great Britain and Ireland is now therefore conducted on the principle of limited liability, with a large reserve of uncalled capital.

And from the failure of the City of Glasgow Bank, as well as that of the Western Bank of Scotland some years before, all bankers have learned that *ambition*, *push*, and what is called *enterprise*, are not elements of good banking. These two banks were distinguished by these characteristics from the first, and not seldom twitted their neighbors with their slow, old-fashioned methods.

Time, however, and events, justified them.

CHAPTER XXVIII.

BANKING AND COMMERCIAL LOSSES—Continued.

A CORNER IN WHEAT—ANOTHER DISASTROUS GRAIN SPECULATION— ADVANCES ON WAREHOUSE RECEIPTS—RISKS OF THE GRAIN BUSINESS.

IF experience has any value, few narratives can be more instructive than the records of commercial and banking losses and disasters now being presented. They indeed form a sort of chart that indicates the rocks and shoals besetting navigation in banking and commercial seas. It is therefore of high importance that the record shall be true; and the selection of instances such as to illustrate some danger to be guarded against. The incidents related in these and succeeding chapters fulfill both conditions.

Some years ago, in a western city of this continent, an able and intelligent merchant in the grain trade was carrying on business year after year with safety and satisfaction. He was in good credit with his bankers, and well esteemed on "Change" for his probity and reliability. He had, at times, his losses by falling markets, but he had also his gains; and, taking one season with another, he made steady progress and quietly accumulated capital.

His dealings with his banker had always been marked by probity and punctuality. He could be relied upon to fulfill his engagements, and being well known to his bankers as a man of remarkable intelligence, his account was deemed one of the most satisfactory in their connection.

His operations were legitimate, though of considerable magnitude, and so high was he esteemed that his bankers had no hesitation, in an active season, in making considerable advances, at times, on his simple engagement to deposit equivalent bills of lading for grain in the course of a few days, when the cargoes he was purchasing would be completed.

This was not the usual course of his account; for generally the advances he obtained were secured at the time. But these exceptional advances were considered to be needful when the movement of grain was exceptionally heavy. For years no failure to meet his engagements had occurred. But on one occasion, in the midst of an extremely active market, an advance of this character was applied for of more than usual magnitude. For the purpose, ostensibly, of filling contracts, the merchant required to proceed to Chicago to purchase the required quantity. Four or five days would have been sufficient for the purpose, and by that time he was expected to return and deposit the bills of lading.

But he failed to appear at the expected time. After a further delay of one or two days, his bankers became uneasy, especially on hearing that a gigantic "corner in wheat" was in progress.

He had, however, never been known to take part in anything of the kind, and the uncausness was not serious.

A few more days elapsed, when he again entered the bank. His appearance at once excited attention. His face had a terribly haggard expression, apparently from excitement and loss of sleep; and a sad story he had to tell. He had brought no bills of lading; he had lost the whole of the money advanced to him and all his active capital in addition. In a moment of weakness he had been induced to join in the huge "corner" that was in progress, and to deposit the money that had been advanced to him, as his share in the operation. For a day or two it seemed as if he would more than double his money; but, as is generally the case, the bubble burst just as the speculation was maturing. Every man engaged in it was ruined, he himself included.

He made all the reparation in his power. He had no other creditor than his bankers, and to them he gave a mortgage on all the property he possessed, including a handsome residence. Shortly afterwards he left the city.

The fact was, that he was utterly ashamed to meet his confreres on 'Change after such a fiasco. And after realizing their security, the bank made the heaviest loss it had known for years.

He went to Chicago. There he earned a precarious subsistence for about a year, after which he suddenly disappeared. None of his friends knew what had become of him; but a few days afterwards his body was found floating about in New York Bay—a terrible end to a once most promising and prosperous career.

ANOTHER DISASTROUS SPECULATION IN GRAIN.

In another case in the same line of business, a failure took place from a different cause.

In a certain commercial city of this continent a man well on in years was often noticed at a certain period in the last century as haunting the purlieus of 'Change, having a strangely shabby, broken-down appearance.

He would occasionally ask his friends, and sometimes even his former bankers, for a small loan, telling them, with an eager face and confident air, that the market in some staple commodity was in such a condition that an advance was certain. There was a handsome profit in sight. It was a sure thing. The speculation was safe, and with a few hundred dollars at risk, he had a certain prospect of making thousands.

Nobody doubted his truthfulness or honesty. But they would not lend him any money.

The story of his fall from a higher position in the business world is an instructive one. The circumstances passed under my own observation; as did those just related.

In the year 18— an extraordinary rise took place in a leading staple of the Canadian grain trade. This person had been engaged many years

in that special branch, and had met with fair success. He understood the business, had good connections, had some capital, and always maintained an honorable record.

In this particular year he commenced buying the grain referred to in the customary manner, and continued for some time shipping as well as buying, taking but small risks, as was his usual method. As the price was steadily advancing, he uniformly realized a profit out of his purchases. Naturally, this developed a disposition to make larger purchases, and also to hold, which at length he determined to do, warehousing the grain in independent warehouses and obtaining advances thereon from his bankers. He was advised by them from time to time to ship and realize his profits, which were becoming considerable. But the market went on rapidly rising. A heavy speculation set in. Buying orders from abroad poured into the offices of dealers, and the price at length reached a phenomenal figure, such as was never known for the article either before or since.

Exciting scenes occurred daily on 'Change, and a perfect fever of speculation prevailed.

His bankers now pressed more and more strongly that he should realize and take advantage of what was the opportunity of a lifetime, by realizing a profit which would nearly double his capital.

He was wise enough to adopt their suggestion, and on one well-remembered day, sold out his whole stock at an immense profit.

His bankers congratulated him that afternoon on the sale, for it not only ensured repayment of their advances, but the prospect of a good and safe business with him in the future from his largely increased capital.

The day on which he made the sale was a day of excitement far beyond anything ever known in the trade. The air was full of rumors, dealers were buoyant beyond all reason, and the price went on advancing, on this one day, by "leaps and bounds." The bank congratulated itself that their customer at any rate had escaped from the vortex; and when he made his appearance next morning, supposed he would hand in checks for his advances, with the large profit he had realized in addition.

Conceive, then, the disappointment and vexation, indeed the anger of the bank, on learning that after selling out his stock, and realizing practically a fortune, he had, in market phrase, "*bought in again*," and was now holding as much of the grain as ever! After getting safely out of the vortex, he had been caught by the spirit of speculation then dominating the market, and plunged in again.

The indignant remonstrances of his bankers produced no effect. He was convinced that the market would rise still higher; that he would make a still larger profit, and was deaf to all advice and warning.

It was, however, at that moment, more *his* affair than the *bank's*; for its margin was very large, and the market would have to fall to what seemed an impossible extent, before they could be affected.

What followed may be briefly told.

From that day the market began to decline. The decline went on steadily. He persuaded himself, however, that there would soon be a reaction, and that the price would go higher than ever. Nothing could shake that conviction.

The decline proceeded as rapidly as the rise had done, but he could not be persuaded to sell.

The bank could not reasonably exercise the "power to sell" contained in their securities, so long as the margin continued so good. Therefore week by week he was allowed to take his own course. But, as is often the case under such circumstances, he became utterly demoralized by the rapid disappearance of his profits. He continued desperately to hope against hope; until at last the bank, seeing that the margin was rapidly disappearing, gave the usual notice, took possession of the grain, placed it on the market, and realized.

The market fell steadily and rapidly during the process; and the final result was that the net amount realized from the grain was actually *less than the advances on it*.

The man was ruined beyond redemption. The bank's loss was considerable, but for the merchant the event was fatal.

From that time he never held up his head. He became utterly unfit for business, disappeared from the scene of his misfortune, and finally subsided into a melancholy wreck, a terrible example of the folly of eagerly grasping at the last dollar of profit, and so, according to the old fable, by aiming at a shadow, losing the substance.

The grain trade, perhaps more than any other, requires a particularly cool head, and what may be called a moderation of spirit, to enable success to be achieved in it. In almost every considerable centre of this branch of commerce are to be found such wrecks as the foregoing; and it may be laid down almost as an axiom in this business that the man who seeks to make large profits out of a single venture will inevitably be overtaken at some time in his career with bankruptcy and ruin.

One of the most successful men who ever carried on this business invariably acted on the principle of never grasping at the last percentage of profit in a given line of operations, and continued to the day when he went out of the trade altogether, a prosperous and successful man.

Another example of commercial and banking loss in this exciting but difficult trade differs from both the preceding.

At a certain point in the nineteenth century no name was more prominently known, both on this side the Atlantic and in Europe, than that of a large grain merchant in a certain much-frequented seaport. His operations were legitimate, in one sense, namely, that, unlike speculators on margin, he handled the actual grain, purchasing and shipping from western centres of production to merchants and millers in Europe. His operations, at times, were so large that he could furnish the whole cargo

of several steamers at once. Many merchants and millers in Europe looked to him for supplies. Inland steamers were supplied by him with a constant succession of cargoes during navigation. Cables and telegrams alike were pouring into his offices continually, and his bank account was one of phenomenal activity. His capital was supposed to be large; but his operations altogether baffled the calculations of more moderate men in the trade. They despaired of following out the results; but amongst themselves had shrewd suspicions that, at some time or other, a heavy collapse would ensue. And ensue it did. It came about in this wise.

In the midst of a certain season, known to be one of heavy depression in the trade, his bankers demanded a more exact statement of the stores of grain he held, and the cargoes he had under way, as well as the state of his account with European correspondents.

On this statement being examined, it became evident that he was insolvent.

The advances from his bankers were nominally covered by securities, but investigation showed that, in many cases, the so-called securities were of an illusory character.

Large quantities of grain, represented as being stored in a certain mill, or in process of shipment, were not to be found.

Properties in the shape of mills, ships, etc., were found to be worth a mere fraction of the values he had placed upon them.

When he had passed into insolvency, and a thorough investigation of his affairs was made by a committee of creditors, it became evident that his business for years had been nothing more than a continued course of heavy "plunging." He had gone on recklessly making immense purchases, and shipping a large series of cargoes across the Atlantic on consignment, conducting his whole business as if it were a game of chance. The only difference between his operations and those of a mere speculator on margin was that he actually handled the grain.

Fortune sometimes favored him; for his books showed that at the close of some seasons, he had a large surplus of capital. But more frequently he closed the year in a state of insolvency.

How, then, it may be asked, did he keep himself afloat?

The answer is to be found in the condition of his affairs at the close, viz., that there were in the hands of his banker documents representing large quantities of grain that had passed out of existence, on which he had obtained advances, but which had been shipped without such advances being retired, a state of things which every banker doing business in seaport centres knows to be possible when numbers of cargoes are constantly shipped.

The business was wound up. The estate paid scarcely any dividend. And as in the former cases, the great speculator disappeared from the scene of his ambitious projects and never returned.

ADVANCES ON WAREHOUSE RECEIPTS.

It may be said that the feature of Canadian law which makes it legal for bankers to advance money on warehouse receipts given by a person for his own property is responsible for such disasters as the foregoing.

There can be no doubt that such receipts are of far less value as security than those given by a warehouseman for goods placed in his charge by another. But no banker is obliged to make advances on such documents, and it is doubtful whether in this case advances were made on this kind of a warehouse receipt at the outset.

It is more than likely that the shortage, so to speak, arose in the processes by which grain is transferred from railway to steamer, from canal boats to warehouse, from inland steamers to ocean-going vessels, in all which operations there are intervals of time during which merchandise is in a state of transition, and actually covered by neither one kind of document nor another. The amount of grain in transition when operations are large, in an active shipping season, is of far greater magnitude than any outsider would deem possible.

RISKS OF THE GRAIN BUSINESS.

The commercial and banking losses mentioned in this chapter all arose in connection with one line of business, viz., the export grain trade; and all experience shows this business to be one of the most risky in which any man can engage. Yet it is one of the most useful of all occupations, for the supply of food to the people of whole nations depends upon it.

If such a thing could be conceived as that commercial men would be so afraid of the risks of the trade that they would not engage in it, a good part of the people of the world would starve. That, however, is inconceivable. But it is a fact that the average rate of profit in the business of providing the staple food of mankind is so small that nothing but the closest calculation and most exact management, combined with coolness of judgment, can carry a man successfully through its risks.

In looking over the results of hundreds of millions of operations engaged in by exporters and dealers in breadstuffs throughout the world, it is somewhat melancholy to notice how few of the men who have been engaged in the trade have derived any permanent benefit from it. Benefit there has been to the great mass of consumers, but the result to the men who have fed these millions has almost invariably been bankruptcy.

In examining dispassionately cases like the foregoing, and endeavoring to draw some useful lessons therefrom, both for bankers and their customers, it is impossible to avoid a conviction that some blame must fall upon the banks concerned.

Let them be taken one by one. The bank in the first case advanced a very large sum in actual money on the statement of a customer that he was about to make large purchases in a distant grain centre. But with such knowledge of business as bankers ought to possess, and the exercise

of shrewd reflection, they should have seen that it was not necessary for a customer to go to that market with money actually in hand. There was no need for the bank to hand their customer this money; and the fact that they were asked to do it should have rendered them suspicious. The proper course for the merchant would have been to go to Chicago, to purchase the required quantity, to order it to be shipped; and for the seller to draw upon him at short sight with bills of lading attached. The bank could have advanced the money to take up the drafts with safety; for they would have the bills of lading as security. This would have demonstrated to the bank that their money was represented by grain; but to ask for a large amount of money for the purpose of taking it to Chicago should have suggested that an improper use might be made of it. They should have known that it might be put up as a margin in a speculation, or paid in as a share in a huge "corner," which last proved actually to be the case, to the ruin of the merchant and loss to the bank.

In the second case, where a bank's customer refused to sell grain on a falling market, while there was still a heavy profit in the transaction, it is evident that the power of sale should have been exercised earlier than it was.

The case was one for prompt and decisive action, when the bank had so foolish a customer to deal with. No considerations of regard for a man's feelings, or fear of giving offence, should have been allowed to prevail at such a time. Even a regard for the customer's own interest might have led the bank to a firm course of action; for undoubtedly a customer's interest is, at times, best served by a refusal to lend money, or by insisting upon payment at the proper time.

After all, what the bank was bound to consider was its own interest; and if it had followed a course of action best suited to that, it would have saved itself from loss, and its customer from ruin.

In the third case, the bank was to blame in making continuous advances to a customer whose operations repeatedly suggested the necessity of a close inquiry as to his methods and position, which inquiry would have demonstrated that his methods were unsound, and his operations nothing but "plunging." In this case the bank should have insisted upon tangible and solid security to be furnished, so that its advances might at all times be covered, in default of which it should have closed the account; and no consideration of the convenience of the customer, or the indirect advantage to trade, or the profitableness of the apparently valuable account, should have prevented such action being taken.

The above criticism is all founded on the theory that a banker should be sufficiently acquainted with the general course of the trade of his customers to be able to judge whether they are carrying on business judiciously or not. That this is a sound theory will hardly be disputed by those competent to pass judgment.

CHAPTER XXIX.

LOSSES IN CONNECTION WITH THE IMPORTING TRADE AND OTHER LINES OF BUSINESS.

HOW A BANK LOST THROUGH FAILURE OF AN IMPORTING HOUSE—
BENEVOLENCE NOT AN ATTRIBUTE OF BANKING—A REMARKABLE
FAILURE—THE LUMBER AND TIMBER TRADE.

IN the preceding chapter instances have been given of losses arising out of one branch of our export trade, viz., that in grain. In the present chapter the subject of losses in other lines of business will be considered.

There is a radical difference between the modes of operation in these lines of business and those in the grain trade. The latter deals with the prime necessity of human life. Quotations of its value are made every day in the commercial centres of the world. Its operations are carried on and reviewed in the produce exchanges of commercial cities; the results are public property, and as the trade is in staples of absolute necessity, transactions are large and the percentage of profit small. But the importing trade of this continent deals with a multitude of articles of which the values are never publicly quoted, and the dealing in which requires special education and experience.

Moreover, the business of importing, and the wholesale dealing in imported goods, can scarcely be entered upon without more or less capital and business knowledge. Its results, taken broadly and generally have been much more satisfactory to those who have carried it on.

Yet it cannot be denied that in many instances, from various causes, many a career that at one time looked promising has ended in disaster and bankruptcy, entailing at times heavy losses both to banks and to other traders. Let us take one or two examples of this on this continent.

In the earlier days of Canada a large house in the importing trade had risen in a commercial centre from comparatively small beginnings until its operations extended over a vast extent of territory and population. The firm had acquired high credit. It could buy at the best terms in foreign markets, and its selection of goods was such as to attract customers from all parts of the country. It thus gradually came to have almost a monopoly of the business of many storekeepers in country towns, who found the firm most accommodating in their mode of doing business; giving credit liberally, being lenient in collecting, and always ready to consider favorably proposals for renewing bills or extending credit if satisfactory security was given.

Naturally, under these circumstances, the house came to have a number of customers who leaned upon it for supplies and were of that profit-

able kind who never objected to prices. Their customers in many cases gave security to the house on *land* and buildings, the land being often uncleared lots in the forest, or the partially cleared farms of struggling settlers. The properties in many cases had already been mortgaged for loans or unpaid purchase money, but the house took the security for what it was worth; generally under the impression, common in those early days, that real property was sure to advance in value. The security would thus become more tangible year by year.

Under this condition of things, the amounts owing by the circle of dependents, for such they were, tended continually to increase; until in many cases it became an absolute necessity to carry the account on, unless the customers were allowed to go on into insolvency. When men in the retail trade arrive at this stage, they cannot get credit elsewhere; they must be carried on or stop.

The ordinary bank account of a firm in their line of business would consist of the discounting of customers' bills given in payment of goods, and purporting to be payable on an expressed day.

So long as these bills represented goods in the active course of buying and selling; representing, that is to say, a moving account, their payment with perhaps one renewal could be depended upon. With many of the smaller customers of the house this continued to be the case. But with regard to the class of customers before named (which was an increasing one) their bills came to represent more and more mere dead stock on the shelves, and were kept current by renewals. Especially was this the case with that portion of their debt for which security had been given.

Thus, then, their banking accounts (for they ultimately had three) would present this appearance: that, while it contained the paper of a large number of persons for small amounts representing active business, it also contained the bills of a certain number of persons for far larger amounts, representing what are known as "supply accounts," on mere dead stock.

It has been said that both the number of this class of accounts and the sums due by each went on steadily increasing; *for the method of the house naturally led to their ordinary customers drifting into this undesirable class.* So long as the prosperous times lasted, while money was plentiful, and the credit of the firm good, the account being large, active and profitable, the several bankers of the firm allowed this state of things to continue. But at length the usual turn in the tide took place. Bad harvests made money tight. A great tide of revulsion set in, necessitating severe curtailment of discounts by banks. The firm was called upon for considerable reductions by each of its bankers, while the creditors of the house in Europe and elsewhere, being advised of the unfavorable turn of affairs on this side of the Atlantic, also called for closer payment of invoices. The firm was thus pressed from two sides at once, and was under the necessity of taking strenuous measures with its customers in turn, insisting upon their accounts being reduced, or paid up. But reduc-

tion in times of monetary pressure is almost impossible, as Mr. Gilbert has shown in his admirable work on banking. The retailers endeavored to collect in turn from their customers, and a general condition of disturbance ensued. Some asked extensions, offering such security as they had. Others went into insolvency. The selling off their stocks by an assignee tended to embarrass other firms, and thus things went on drifting from bad to worse. Before this had occurred, the banks had scrutinized the bills given by the firm with unusual care, and realized that the amount of paper given by certain customers was far beyond what was legitimate.⁷¹

Thus when the bankers of the firm, in the sharp stress of monetary pressure, came to sit in judgment upon the bills current in the account, they were vexed beyond measure to find what large amounts of the paper of certain storekeepers were afloat. Men whose whole sales in a year were only some \$50,000 had bills running for the whole of that sum or even more.

A scrutiny of the securities was quite as unsatisfactory. Numbers of mortgages supposed to be on cultivated farms, with buildings and orchards, were found to be on lands only partially cleared with nothing but a shanty, or log barns on them, and the land itself not wholly paid for. Under these circumstances the firm went into insolvency. As the realization of the assets went on, the land often turned out to be barely worth the first mortgage, making the bank's security worthless. Mortgages on property in villages or towns were in many cases equally delusive. Vacant lots, valued at high prices under some "boom" influence, wooden buildings, shops, dwellings or barns, when brought to sale after foreclosure, realized, when charges were paid, but a mere fraction of the nominal value of the mortgage.

Whilst these processes were advancing the revulsion in the commercial sphere that had set in went on deepening year by year. Abundant harvests, sold at high prices, which had much to do with the development of the boom, were succeeded by a succession of bad years. Hence a heavy fall in the value of properties, and a continued series of commercial failures both in the wholesale and retail trades. The terrible experiences of the United States in 1857 were repeated all over Upper Canada. As might naturally be expected nearly the whole of these dependent persons failed when the supply house failed, and their estates yielded very moderate dividends.

This, of course, reacted upon the dividend paid by the great firm itself. Upon the various bankers of the firm finally fell the task of dealing with and winding up these complicated estates. This was a mat-

⁷¹ Let it not surprise the reader that this had not been done before. Bankers, like other mortals, are affected by changing circumstances. In prosperous times, when business is swinging along with activity, a banker's judgment is apt to be affected. An amount that would look dangerous when money is scarce, is passed by almost without notice when money is plentiful. And the course of an account which in times of pressure is seen to be illegitimate, in times of prosperity is apt to be passed by unnoticed.

ter of years, and the final result was heavy loss. As to the firm itself, it passed out of existence. Its various members became scattered here and there. Some of their old employees picked up the scattered debris of the once widespread business, and met with various degrees of success; but the firm itself, once so prominent and powerful, has almost passed out of the memory of the old inhabitants of the city where the name of the firm once commanded such high respect.

The above is a typical instance of the kind of failures that occurred in the early days of Canadian development, when the country was only half cleared, the real value of land very unsettled, and few means existing of ascertaining the true position of retail merchants; and also when the true principles on which credit should be given were as yet imperfectly understood.

It is true that even in this condition of things, some mercantile houses managed to thread their way by dint of more than ordinary sagacity and prudence, combined with courage in stopping when things looked dangerous. Such men, in various instances, accumulated a competency or fortune, which, with the business they founded, has survived to this day. But the above history is only too true a record of an opposite kind, of which Canada in its early days furnished many unfortunate examples.

Of an entirely different description in most of its particulars, though like it in its general features, was a failure that occurred in a later period of deep depression in one of the commercial centres of this continent. The head of the house was a man who had been well trained to business, and thoroughly understood it in all its departments. A man of activity and energy also, of an enterprising disposition, he had built up a large business from small beginnings, until he stood in the front rank of the houses in his own line of trade. His capital, apparently, had been steadily growing until it amounted, as was supposed, to a very large sum. And so he supposed himself. He was a man of philanthropic temperament, loved to help men on in life, especially young men; and had set up in business a number of such in various parts of the country, who, of course bought goods from his firm exclusively. As has been shown in another part of this treatise, this mode of doing business has, for a time, great attractions on both sides. To the merchant it gives an outlet to his goods at all times with the least trouble and expense, and at a better than average profit. To the retailer it affords an unfailing source of supply of goods for his shelves, and almost certain help when money is scarce and times difficult.

BENEVOLENCE NOT AN ATTRIBUTE OF BANKING.

Benevolence is a fine attribute of character in the ordinary walks of life; but a competent authority has declared it to be dangerous and out of place when projected into the sphere of banking. It is equally so in the sphere of commerce; for it renders it difficult for a merchant to

resist importunities either for more time, or more goods, and it prevents him from employing those measures of enforcement which are at times absolutely necessary to the safety of business.

Hardly ever was there a better exemplification of this than in the case before us. The accounts of these men who had been so set up went on smoothly when times were prosperous; the only disquieting circumstances being that they tended to grow larger and larger. This tendency should have been strenuously repressed, and the accounts kept within proper bounds.

But unfortunately for this merchant, he was in such good credit, that, as it was in the case just cited, he could discount bills freely in three banks simultaneously. This facility of obtaining money blinded him to the danger of such overgrown credits. And the fact that the account was carried on in three places blinded the eyes of his bankers too. None of them, in looking over the discounts under his name, seemed to have realized the true position. Their own share of the bills of these supply concerns did not seem to be large enough to create uneasiness. None of them, apparently, took account of the fact that the paper under each name required to be multiplied by three. Had they done this, they could not fail to have seen how dangerous the position was. Had there been only one account with a well managed bank, it would have been impossible for such a state of things to have arisen. No single bank would have discounted such an amount of the bills of these houses, or any of them, as was discovered to have been distributed amongst the three. The tendency to overgrown credits would have been checked by refusal to discount. But facility of discounting proved the merchant's ruin. A time of depression at length set in. Trade became bad, money scarce, collections difficult. Payments on the bills of these houses became less and less, and pressure for renewals more and more. Even then the house might have been saved by energetic treatment being applied to these customers, and payments insisted upon before delivery of new goods. But the head of the firm had not the heart to do this. He found it impossible to resist importunity. Matters drifted on until the accounts due by these parties and the paper discounted at the three banks rose up to sums which, as owing by retailers, were simply appalling. Had these customers owed him but five to ten thousand dollars, he might have been able to take them in hand, and would not have been afraid even of their stopping payment. But as it was, their accounts had run up to sums of thirty, forty, and fifty thousand; and even in one case to such an abnormal figure as one hundred and twenty thousand! Their aggregate indebtedness was far more than the whole capital of the house. To stop them meant ruin. Matters therefore drifted on, always with the same delusive hope of a turn in the tide which would render quiet liquidation of some of these concerns possible. But depression went on deepening, and banks as well as merchants felt the pressure of it. They were compelled to curtail their discounts. The three banks

concerned all applied pressure, but there was no effectual response. There could not be; and finally, the firm, overborne by the weight of these masses of money due to them, that would take years to collect, stopped payment, placed their affairs in the hands of an assignee, and were compelled to compromise with the same creditors who had been assured, only a year or two before, that the house had a capital of hundreds of thousands of dollars.

In this case the primary cause of failure was in allowing a strong instinct of benevolence to be carried into a sphere in which it had no place. The secondary cause was the facility of obtaining discounts.

There is this further to be said, that if the party had had to deal with only one banker and could have shown himself solvent, effectual help would have been rendered him when difficult times supervened. But co-operation between three was impossible.

A REMARKABLE FAILURE.

We will now pass on to a failure in another line of business, and distinguished by more remarkable features still.

In a certain town of Canada there lived in the last generation a man of active habits, polished manners, and enterprising disposition, who was a great favorite in the community. But his judgment was unequal to his enterprise. He had failed to succeed in one or two positions entrusted to him (not mercantile); but he was one of that style of men who are never daunted by adversity.

Soon after his last failure he conceived the idea of establishing a new industry in the town, in furtherance of which a contiguous water-power could be utilized. He borrowed all the money he could from a member of his family, bought the necessary ground and water-power, and made arrangements with a firm of contractors to erect the buildings. These builders were men of considerable means, customers of one of the local banks, and were in such high credit that paper bearing their name could be readily discounted for considerable amounts.

The contract was signed, the buildings proceeded with, and month by month the proprietor of the new concern gave his notes in payment as the work proceeded, which notes the bank discounted. Such notes had not a good banking foundation, as will be seen, but the local manager, a man of large experience and known to possess an intimate knowledge of the people of the district, reported the parties to be good beyond question. The paper was therefore allowed to pass for a time at the head office, with but little criticism.

As the buildings went on, the total amount of the notes increased; a hope however being cherished that money to retire them could be obtained by borrowing on the new buildings when finished. In this hope all parties were doomed to disappointment. The projector, however, went on cheerily in his usual sanguine way, and the only parties that felt uneasiness were the contractors and the bank manager. The

liability of the contractors to the bank as endorsers had gradually increased to an alarming sum, and the manager of the bank began to fear for his own position, in case his advances did not turn out well.

It was, however, necessary to go on; for if stoppage had ensued, all parties would have been left with that most undesirable of all assets, an unfinished pile of buildings. As they stood, they had already cost more than three times as much as it was supposed would be sufficient to finish them. But many thousands of dollars were still required before they could be ready for the plant, machinery and power. The buildings, however, were finished at last. But the projector's calculations as to the cost of the plant were just as erroneous as they had been with regard to the buildings. But plant and machinery must be procured and placed: after which there might be a possibility of the advances being in some way recouped. At all events the business might begin to earn money. So advances went on, and an apparently finely-equipped establishment stood on the ground. But no money could be borrowed on it until it had proved itself capable of making profit for its owners. By this time it became evident that the bank practically owned the concern. The advances were represented by notes that were far indeed beyond the ability of the parties to pay, and the only hope of good results was in the carrying on of the business. The unfortunate manager therefore begged the head office to allow him to advance more money to buy *stock*, and with a despairing sort of hoping against hope, this was consented to. This stock was not only a stock of raw materials, but of animals to consume the refuse.

Manufacturing then began, but the product was not satisfactory. Considerable amounts of the goods were returned by purchasers, or heavy reductions required from invoices. The promoter, who maintained his cheerfulness, even under these circumstances, now suggested that certain alterations be made in the machinery, and managed to persuade the bank to increase its advances for the purpose.

Thus matters went on for about a year. The concern never made a dollar of profit. The burden of interest on the huge advances ground the business slowly down, and caused the advances to go slowly up. Finally the bank authorities determined to bring the affair to a stop. It was impossible to sell the establishment; for, notwithstanding the money spent upon it, it had not been well planned and never could have made money. The stock of raw material was worked up, the product sold off, so were the animals, everything was realized on, and the place finally dismantled, to remain to this day an object lesson to passers-by of the folly of projecting a great enterprise without means, and of lending huge sums of money without tangible security.

But when the stoppage transpired, a very singular circumstance came to light.

Long before the final catastrophe the wrath of the bank authorities had burst on the head of the unfortunate manager, and it was intimated

that unless he could get the account secured he would lose his position. Upon this he sought an interview with his friends, who comprised nearly every man of position in the town, and his influence was so great that many of them were persuaded to assume a share of the security for the debt. Some of them endorsed for \$5,000; some for more (large sums in that locality) and thus assumed obligations they could ill afford to meet. But they had to pay the whole amount, and some of them were impoverished for years thereby.

The loss to the bank was considerably reduced by the severe measures taken; but it was still enormous, considering the amount of business to be done in the town. Indeed it was estimated that the profits of ten or twelve good years of the branch would be swallowed up by it.

As for the parties themselves, the prime mover came out as he went in, except that in addition to being worth nothing, a heavy and uncollectible load of debt was registered against him. His relatives had lost all they had lent him; and the endorsers lost all they had put their names to.

He could not, of course, remain in a town where every second man he met had lost money by him. He therefore took a situation in a distant town, and passed into obscurity. The contractors were hopelessly ruined; a hard fate for men who had always maintained an unblemished reputation, and who, previous to that affair, had practically retired with a competency.

The bank manager was well on in years at the time of this fiasco, and only retained his position for a short time afterwards. He also left the town, and never again held up his head in banking circles.

As to the bank, it was doing so well on the whole that even a loss of this kind could be written off without attracting notice.

FAILURES AND LOSSES IN THE LUMBER AND TIMBER TRADES

Many years ago it was common for the exporters of heavy timber from Quebec to procure supplies of certain kinds of hard wood from the forests of Michigan and Ohio. This business was one calling for considerable bank advances spread over many months of time. It was a highly remunerative one in good seasons, and no man had succeeded better than a certain Ontario manufacturer who was well-known in Quebec as a heavy producer of timber, and esteemed as a man of sterling integrity. In a certain year, however, he concluded to vary his operations, while still looking to Michigan for his supplies, to export timber in a manufactured condition; that is in the shape of deals. He was in high credit with his bankers and in the trade, and had no difficulty in making contracts for large amounts with many of the sawmills of the State. In fact, the contracts were on a scale far beyond anything that had been attempted before; based on the idea of continued prosperity in the business and of large profits that awaited the conclusion of

the enterprise. But, as has been observed, the lumber and timber business is subject to recurring cycles of expansion and depression; the depression at times being so severe as not only to render it impossible to make profit, but impossible to avoid heavy loss, even with the closest management. It was while these operations were in an early stage that a period of heavy depression set in. Prices fell continuously month after month; indeed, so severely did the revulsion press upon exporters that cargo after cargo was at that time sent abroad from Quebec which scarcely realized more than freight and charges, leaving the whole cost of the article as a loss. Better would it have been in some cases, as a merchant once told me, to have sunk the whole cargo in the St. Lawrence. This had come to be the condition of the trade at the time now spoken of. It was, however, impossible to stop operations when once begun. Numerous gangs of men were out in the woods; the contracts covered the operations of many mills; deliveries were constantly going on, railway and ocean freights had been engaged both from Canadian and American ports. Bank advances had also been arranged for.

But the full extent of the operations had not been disclosed. They had only been spoken of in general terms. But as weeks passed on it became evident that to carry these operations through a far larger amount of money would be required than had been spoken of. It seemed an absolute necessity to make further advances on a very large scale, in fact to an amount altogether unprecedented. There was not, on the part of the bank, such a strict style of dealing with the account as its magnitude called for. In fact, the glamour of the customer's former successes somewhat blinded the bank's judgment. Matters, therefore, went on. The advances mounted up to hundreds of thousands. The contracts were finished and a prodigious accumulation of exportable merchandise gathered together. It was then moved forward to tide water. Ocean shipments began. Sales took place in Liverpool and other British ports. But the unwonted supply still further depressed the market; and finally the affair was wound up, leaving the party, after all the merchandise had been realized, indebted to the bank some hundreds of thousands of dollars.

Many other parties were involved, directly or indirectly, in these or subsidiary operations, and the downfall of the firm brought many men to ruin who had hitherto been regarded as men of substance. The catastrophe was the heaviest that ever transpired in the trade; more than one bank was involved in heavy loss; and the lessons are not likely to be forgotten in this generation at least.

It may be reasonably asked, how it could come about that a trader who had been uniformly successful in timber operations should have made such a prodigious fiasco in a line of business so nearly related, even if a time of depression had set in. To this the answer must primarily be that the trader had entered upon operations that were immensely beyond anything he had attempted before, and for which his capital was ab-

surdly inadequate. But in addition to this, the operations were such as he had had no experience in. He was an expert in timber, but knew nothing, practically, of deals. For, although the business of making timber and manufacturing deals both originate in the forest, there is an absolute difference in the *modus operandi* even from the very outlook; as has been shown. The experience gained in one will not qualify a man for dealing with the other. And Canada furnishes more than one instance of the folly of attempting an interchange.

There is, however, something more to be said about this remarkable case. After the great break-up, and when the methods of the firm were brought fully to light, it was discovered that the expenditures had been characterized by extraordinary recklessness. The close and careful style of former successful days had been completely abandoned, and purchases, contracts and disbursements were carried on from the office for months together apparently on the principle that "money was no object." The parties concerned, in fact, had completely lost their heads in the magnitude and multiplicity of their operations, the result being, that the stock which had been manufactured had cost them enormously more than it should have done.

For this state of things, no little blame must be laid upon the firm's bankers. They ought to have seen what was going on at an early stage, and applied an effectual check to it. But the large profits (apparently) being realized from the account (and on paper they were simply immense) completely blinded the judgment of the officials who had to do with it. They therefore went on supplying the parties with money in a most profuse style, and so continued until the great catastrophe supervened.

Another instance of the folly of a man passing from one department of the timber trade to another of which he knows nothing, will now be given.

In a certain timber district of this continent a person had grown up amidst forest surroundings, who by shrewdness and close attention to his business of manufacturing timber had succeeded in acquiring a considerable capital. The business continued to be carried on by his successors, but in time a change began to be perceptible to the bankers of the firm, in the fact that advances were not periodically paid off as formerly. Inquiry elicited the fact that the firm, without informing their bankers of the change, had ceased to be makers of heavy timber and entered upon the business of *saw milling*. They had, in fact, expended the whole of their capital and not a little of the bank's advances in the erection and equipment of a sawmill in an adjoining district, and the purchase of limits suitable for lumber operations. This was a line of business of which they knew practically nothing. As was to be expected, they made mistakes both in the site, the building, and the equipment of the mill. The business, naturally, did not prosper. The firm steadily lost money. There are intricate points in the manufacture of lumber of which the firm only knew theoretically. The times also were

not favorable. The enterprise was commenced in deception, for they had deceived the local manager of the bank as to the purpose for which advances were required, and, after struggling along for a year or two, they came to a stop. The business was closed. The mill and limits were disposed of. All the property of the partners was realized, after which there remained a heavy debt to the bank which had to be written off as a loss. The mill has long ago been dismantled and abandoned, and all that remains is the memory of a once honorable and prosperous firm, who, in an evil day, were tempted to abandon the pursuit to which they had been brought up, and enter upon operations of which they knew nothing.

CHAPTER XXX.

FRAUDS, FORGERIES AND DEFALCATIONS.

FRAUDS PERPETRATED FROM THE INSIDE OF THE BANK—SPECIFIC INSTANCES NARRATED—DANGER FROM FORGERY.

CONSIDERING the enormous amounts of money and negotiable representatives of money in the shape of checks, drafts, etc., that pass through the hands of bank officers, it is remarkable how little irregularity, on an average, occurs in connection therewith. Through the hands of various officers of a single one of the larger banks in Canada there must pass, at least, many thousands of millions of dollars every year; yet, year after year will sometimes pass, not only without the slightest defalcation, but without even a serious mistake, every dollar being accurately entered and duly accounted for. Yet, although this may be the case in an average of instances, there have arisen at times, in the sphere of banking, very remarkable developments of fraud, not only from without, but from within. Such instances are worthy of a permanent chronicle in a work like the present, for they will warn bank officers themselves of the devious ways in which they may be tempted to walk; it will warn, also, those who have the direction of them, in what quarter dangers may be lurking.

Frauds and forgeries in connection with banking obviously divide themselves into two classes: those from without, and those from within. The last will be taken first.

FRAUDS PERPETRATED FROM THE INSIDE OF THE BANK.

Many years ago, in a condition of things now almost forgotten, the manager of a certain bank in a large business centre stood so high in the estimation of his superiors that he would undoubtedly, had the vacancy occurred, have been promoted to the highest office in the bank. He had risen rapidly to the position he occupied; and he filled it with such intelligence and judgment that there was every prospect of his becoming a man of note in the banking world generally. But during the period of his management a tide of heavy speculation in a certain article set in, taking its rise from the terribly disturbed condition of the neighboring States at the time. The article speculated in was subject to heavy fluctuations, according to the course of the war, and many fortunes were won and lost in great centres of business at the time. A number of Southern refugees had taken up their residence in the city where this manager was located, and gradually became the centre of constant speculative operations. Brokers were employed by this circle, who made heavy commissions on the sales and purchases carried on. These brokers kept large and active bank accounts.

In an evil hour for this manager, he made the acquaintance of some of the members of this circle of refugees and became cognizant of the operations they were carrying on, said to be largely based on private sources of information at their command. Acquaintance ripened to friendship and friendship speedily led to sympathy with the ideas that were the foundation of their speculations. They were all based upon the final success of their cause.

If it was an evil hour for the manager when he first made their acquaintance, it was a far worse calamity for him when he was induced to take a hand in their speculations. His operations increased little by little. At the outset it was only his own money that he risked. But as events developed, the speculative fever grew stronger, and larger amounts of money continued to be required to carry them on. Then it was that he brought the funds of the bank into play, concealing it from the authorities by ingenious frauds. It would have been impossible to pass these transactions through his own account without instant discovery. He therefore arranged with a firm of brokers, customers of the bank, that the entries should all pass through their account. The advances themselves, however, could not be reported at all; they must be concealed. The statements of this broker's account that were sent to Head Office were systematically falsified. Large advances were concealed by fraudulent crediting of manufactured checks. Thus, supplies of money were kept up and the authorities of the bank, for a time, kept in ignorance. All this time, hoping against hope, this speculative circle were looking for some decisive change in the course of events that would ensure victory to their cause. The manager lived in the same atmosphere of hope, and longed for a turn in the tide which would enable those illegitimate advances to be paid off. The rest of the business under his charge was being conducted with his wonted skill and judgment. But the hoped-for turn of events never came; on the contrary, matters became worse and worse. The prospects of the great cause on which so many had staked their all became darker and darker, until finally, a decisive event happened, which ruined that cause forever. The game was now up. All hope of repaying advances was gone, detection was certain, and the wretched manager sought an interview with the directors of the bank, making a partial confession. In consideration of his high character and general success the board at first were inclined to deal leniently with him, as the element of fraud was not confessed at all. But as investigation revealed the machinery by which fraud had been long carried on, there was no alternative but to dismiss him from the service and to call upon his sureties to make good the loss.

He remained in the city for some time after these events, but never again held up his head. And though comparatively young in years, he died a few months afterwards, a broken-hearted man.

Defalcations amongst bank officers, in most cases, take the form of appropriations by those who have the actual command of money, such as tellers. At times, however, there occur cases of defalcation on the

part of those who do not handle cash, the fraud being carried on by means of one or more *confederates*. It sometimes happens that the idea of such frauds originates in the brain of fraudulent schemers outside the bank. These become tempters to wrong-doing, and if they can find a bank clerk willing to be a party to their schemes, he may, even if in a subordinate position, enable them to carry on fraudulent operations to a very large amount.

The most remarkable of such cases in modern times is undoubtedly that which transpired in the year 1900, within the office of the Bank of Liverpool, England. The details of this singular affair became known at the trial of the parties concerned, and seldom has a more extraordinary story been published. It is another case of truth being "stranger than fiction;" but it illustrates what is found to be the general feature in all these transactions, namely, that the bank clerk or officer concerned has made acquaintances or friends amongst a class with whom he has no right to mingle. The case is rare indeed that a bank officer may be drawn into connection (through frequenting saloons and kindred places) with actual thieves and burglars. Usually, however, it is with a class who being at the outset nothing worse than speculators, are drawn into fraudulent transactions. In the case now to be referred to, the associates who brought about the Liverpool bank clerk's downfall were men of the "turf."

It is well known and "pity 'tis, 'tis true" that the habit of gambling and betting on the turf has largely increased in England during the last decade of years. Men of all classes have been drawn, more or less, into the vortex. Some of them, after having been "scorched," have had the good sense to withdraw with no great loss. In other cases men have gone on plunging deeper and deeper, until ruin and disgrace closed the scene. A career of betting is dangerous for any man; but of all men it is the most dangerous for a bank officer. In the Liverpool case the beginnings were doubtless small, and the gang of sharpers, who made this bank clerk their tool, probably hardly imagined what possibilities of mischief were within their reach, when they inveigled him into their toils. And the young man himself, at the outset, never dreamed of the daring schemes of fraud that were to be carried on by his instrumentality. He began betting with such small sums as he could risk of his own. But the time came when his small resources were insufficient, and the temptation was presented to him to abstract funds from the bank. From the moment he yielded to this he was in the power of his confederates. The whole truth of the relations between them has never transpired, but the probability is that the *modus operandi* by which the money was secured was the result of cogitations between all parties concerned. The men into whose power the miserable youth fell were evidently familiar with banking operations, and it is not improbable that the suggestion of the forging of customers' checks came from them. Forgeries having begun, it was essential that schemes should be devised by which it might seem that the proceeds of the checks were drawn out legitimately. Machinery, therefore, was set

on foot of a complicated character, and by means of it abstractions went on until they amounted to a sum which startled the banking world. Discovery, of course, was eventually made. The clerk fled. So did his fellow conspirators. The ramifications of their villainies were gradually brought to light. Most of the parties were brought to justice, tried and sentenced. The bank recovered a large part of the money out of which it had been defrauded and charged the balance from its special reserve fund.

But the most singular part of this story is, that the young man himself seems to have derived no benefit whatever from the gigantic frauds. He kept his position in the bank, went on quietly doing his work, apparently spending no more than young men of his class were accustomed to. Nor does he seem to have been allowed by the gang who had the mastery of him to have funds placed to his credit in a distant bank. The men who were his masters could easily have made him rich, but that was far from their thoughts. To enrich themselves at his expense, and build up their fortunes on his ruin, was the one object they steadily kept in view. He was their slave, and as a slave, they treated him.

One of the parties to the fraud was never discovered. Some evidence was given at the trial, leading to the supposition of his having taken passage in a steamer from France to England, and as he never landed it was surmised that he ended his career by suicide. If so, Justice was balked of her prey, for crimes such as these men committed could hardly be deemed sufficiently punished even by penal servitude for life.

In neither of the foregoing cases did the frauds result in any benefit to the bank officer who committed them. A case is now to be related in which gain was the object and in which measures were so cunningly contrived that success for a short time was attained.

In a certain bank office, in one of the smaller towns of Canada, a manager many years ago was performing his duties, on the whole, in such a manner as to give satisfaction. He made mistakes, at times, as other men do, in like positions and was sometimes reprimanded by his superior officers on account thereof. But he stood well on the whole, and would doubtless, in time, have been promoted to a higher position.

The ordinary course of the business of his office was quiet and uneventful; but on a certain day, in the midst of a winter season, a rather singular event occurred. As is the case in all bank offices, the keys of the safe and its inner compartments are divided between the manager and one or two other officers, the presence of all being necessary before the safe and its compartments can be opened. On the day referred to, the manager told the accountant that it would be needful for him and the "teller" to come to the bank rather late in the evening, as a person with whom he had had some correspondence had business to transact and would arrive by a late train and must leave by an early train in the morning. This man, as the event proved, was a confederate in a contemplated scheme to defraud the bank. Yet he was a well-known merchant in a

certain line of business of which there was a good deal in the neighborhood.

Under the pretence of a large transaction with this man, in which the officers said there appeared to be some haggling about the rate of exchange, the manager had the safe opened, and a considerable sum of money paid over to him. The confederate left the town the next morning. The manager, leaving the accountant, as customary, in temporary charge of the branch, went to Toronto the next evening, stating that he was going to look after a past due bill and would return the following day. He did not return, however, but remitted the amount of the bill; immediately after which a telegraphic message from a distant city revealed that the pretended business transaction was a fraud. On receipt of this, the first thought of the accountant was, that the manager had been victimized; for that he, the manager himself, could be a party to the fraud was almost unthinkable. However, the authorities of the bank, who had been communicated with, soon became convinced that a collusive fraud had been perpetrated, and that the whole proceedings had been part of a prearranged plot to deceive the bank. The appearance of the stranger at the time, the haggling about commissions, the journey of the manager after a delinquent debtor, and his remitting the amount of the past-due bill the following day, all were seen to be cunning contrivances by which suspicion was lulled sufficiently long to enable the manager and his confederate to place themselves as far beyond discovery as possible. The most energetic measures were taken immediately. The most skillful of the many law officers connected with the bank were set to work. Pinkerton's Detective Agency was employed, and hundreds of telegraphic messages were sent to all parts of the United States; for thither, of course, the fugitives would be sure to proceed. The first trace of the delinquents appeared in the shape of a parcel of the notes of the bank sent for redemption from a city in the State of New York to a western branch of the bank. These, on examination, were found to be a portion of the stolen money. This was the first clue, and with the assistance of the detectives, lawyers, and officers of the bank, it was so well followed up that the fugitives were both discovered in their remote hiding-places and the larger part of the spoil recovered.

The story of their pursuit is a singular one. The first person to be communicated with was the private banker in New York State who had forwarded the notes. In answer to enquiries, he said that two men had come into his office some days before, and deposited a large amount of money in Canadian bank bills, stating that they were in the cattle trade and had come over to buy cattle in the state of New York; a likely enough story. Then, that they had drawn out the money the day after in American bills, to make payments, as they said, for the cattle they had bought. The two men were evidently the bank manager and his confederate. Detectives followed up the clue and ascertained that the two men had proceeded to the station of the New York Central Railroad, where one had bought a ticket for New York and the other for Chicago.

The manager had gone to New York, as was supposed he would, and strange as it may appear, he spent a day or two quietly visiting his sister at the very time detectives were scouring the city in search of him. But the search being continued, the detectives found traces of a man resembling the manager as having left New York en route for the South. One of the higher officers of the bank, who was well acquainted with the manager and his handwriting, was instantly despatched to accompany a detective in pursuit. The first certain trace was found in a southern hotel, on examining the register of which a name was found to have been entered two days before in the manager's handwriting; under another name, of course. They were now on the track of the fugitive. Travelling swiftly they followed up traces from city to city, by means of his handwriting. Passing on from South Carolina, they traversed the states of Georgia, Florida, Alabama, Louisiana, Mississippi, Texas and Arkansas. All the traces were followed up with the keenness of a sleuth-hound, but the fugitive was always a day ahead of his pursuers. He did not know exactly what was being done, but he was very sure that he was being closely pursued. This conviction led him to betake himself, at last, to the most remote and least frequented parts of the immense regions he was traversing. The same cunning he had manifested in devising the plot enabled him, after a day or two of flight, to devise measures by which his pursuers would be completely baffled. And baffled, at length, they were. When they reached the farthest portions of Arkansas and were on the border of the Indian Territory, they lost the clue completely, to their great vexation. The fugitive had evidently escaped for the time. The pursuers returned and the bank resigned itself to the possibility of a considerable loss.

This, however, was not to be. A few months transpired and nothing was heard of the missing man, until one day the solicitor of the bank in New York received a letter from him dated from an obscure little town, in one of the far Western states, stating that he still had nearly half the stolen money in his possession, that he felt himself to be like a hunted hare that would certainly be run down some day, that life had become perfectly intolerable to him; that he could neither rest by day, nor sleep by night; and finally, offering to make all the restitution in his power. The bank left the matter in the hands of their solicitor in New York, and the greater part of the money in the fugitive's possession was recovered. It was evident, at the time the restoration of the money was brought about, that the man was utterly broken both in body and mind; and he died a short time afterwards.

Meanwhile, energetic steps had been taken to follow the clue afforded by the ticket to Chicago to track the confederate. He had come to Chicago, that was proved. But whither he had gone was the difficult thing to trace, as there were dozens of directions, each leading to far distant places, in which he might have sought shelter. But the fact of his having been in the lumber trade led the Pinkertons to suspect that he might possibly have betaken himself to the distant forest regions border-

ing on Lake Superior, where lumbering operations were then being carried on. It was winter and there would be numbers of lumbering camps in the woods. In some of these camps tidings might possibly be heard of him. Pursuing this idea, detectives were sent in search. The localities were very remote, the area covered by the camps was hundreds of square miles in extent, and covered by dense forest. The chance seemed very remote; but detectives seem almost able to work miracles in the way of investigation, and at length, in one of these camps, in a very remote region, they heard that a stranger had lately made his appearance, apparently a Canadian and a lumberer, who had come professedly to look after timber lands. The detectives were now convinced that their man was in sight. Soon afterwards they found him and telegraphed to the lawyer of the bank who had the matter in charge. He came up and found that the confederate had the larger part of the stolen money upon him, and so managed matters that most of it was given up.

FURTHER INSTANCES OF FRAUD AND FORGERY.

Although the instances of defalcations and forgery are repeated one after another in these chapters, it is not intended to convey the impression that such crimes against commercial honor are common events. This is so far from being the case that of the millions of money that pass through the hands of bank officers in the course of their business, not one in a million probably is abstracted or improperly dealt with. Of the millions of dollars of commercial bills drawn during any given year, it is safe to say that not one in a million is forged. A striking instance of the absence of defalcation and the prevalence of commercial honor during a long course of years is furnished in the history of the Bank of New York. This bank has put on record that during the first forty years of its existence no bonds of suretyship were taken from its officers, and that during the whole of that period *not a single defalcation occurred*. Times and circumstances have changed materially since the period referred to, and all banks and corporations now find it prudent to take such bonds. Yet, even now, frauds and forgeries are rare events. But when they do occur they are not seldom of so striking a character as to furnish object lessons to banks and every description of corporations.

At a certain period in the history of the New England States, few bank officers were more prominent and respected than the cashier of a certain bank in one of their principal cities. He was known all over his own state and highly esteemed as a man of honor and ability. He took a prominent part in the affairs of the city in which the bank was situated. And if, at any time, a discussion had arisen as to the possibilities of fraud in the banks of New England, his would have been the last name thought of. But one day there began to be rumored about the city, to the astonishment of the community, that there was something wrong with the account of the Cashier of the bank.

At first nobody credited the rumor, unless it might be a few cynics of the class that have a "bad opinion of everybody in general." But as

the days went on the rumor gathered strength and took a more definite shape. A defalcation had certainly been discovered. The amount, as is invariably the case, was exaggerated by rumor; but at length the arrest and prosecution of the cashier placed the matter beyond doubt. The event gave a shock to the banking and commercial community of the whole state, and even beyond its borders. Numbers of people felt as if the very foundations were giving away, when such a man as he was supposed to be could be guilty of crime. If such men as he could not be trusted, who was worthy of confidence? Many hoped that after all he might be able to clear himself. The hope, however, proved fallacious. The arrest was followed by trial; the evidence could not be controverted, and he was found guilty by the jury, regretfully enough. A long course of honorable dealing could only be pleaded in mitigation of sentence. This was doubtless taken into consideration by the judge, but the sentence imposed was severe, namely, imprisonment for ten years in the State penitentiary.

When the cause of this sad downfall was inquired into, it was found that stock speculating had been carried on by the cashier for some time back, and that the funds of the bank had been used for the purpose. These speculations were sometimes very profitable; at other times not. But at length a period of steady losses set in; calls for margins could not be responded to, and the defalcations could no longer be covered up. Then came the inevitable discovery.

But there was something behind the stock speculation. The prominence of this cashier, in the community and the state, had gradually led him into a style of living that was far beyond his income. It was doubtless for the purpose of adding to his income, so as to enable him to keep up this style, that stock speculation was first resorted to. That step once taken, the path diverged further and further from safety and honor, and ended in the catastrophe that has been narrated. In this case the directors of the bank can hardly be absolved from blame. The style in which the cashier lived was perfectly apparent. The very house he lived in gave evidence of it, and they could not fail to know that such a style could not be supported by the salary he was receiving. It was, doubtless, their duty to interfere, before wrong-doing had been developed. Had they done so, they would have saved the bank from loss and their cashier from ruin and disgrace.

THE DANGER FROM FORGERY.

Of all the dangers that arise in the conduct of bank business, forgery is perhaps the most difficult to guard against. The danger especially arises from the fact that it is often committed by persons of good standing, who by a course of honorable dealing have established themselves in the confidence of the community. There are, in every large commercial centre men in business whose reputation is so bad that they could not pass a forged bill if they tried. It is the men of good reputation and antecedents who astonish the world at times by falling into the pit

of dishonor, and offering forged bills and documents to a bank. Of this a few instances will be given.

At a certain period, in the history of one of the great staple trades of the Continent, no firm stood higher than that of ——— & Co. The head of the house belonged to one of the best families in the country, and the name itself was a synonym for all that was honorable and respectable. They carried on business in more than one centre of trade, and were known as amongst the largest exporters of the commodity they dealt in. They were bona-fide merchants, who actually handled the goods they exported; not mere schemers, who lived by speculation and engineered "corners" in the trade. This firm, like other firms, had its good and bad years. But if any one had made a guess as to the possibility of any house on 'Change doing anything dishonorable, this firm would have been ruled out of the supposition at once.

One day, in the midst of a busy season, the head of this house presented shipping documents to a bank with whom they dealt; that is, bills of lading and policies of insurance, for a large amount of merchandise to be shipped. An advance was made upon them with the usual margin. A day or two afterwards the city was startled by the news that this firm had stopped payment. The news did not particularly disturb the bank, for their advance was apparently well covered by securities. The only irregular feature was that the bills of exchange, which should naturally have been drawn against the merchandise shipped, had not been brought in as customary. The bank had bills of lading however. This would keep them safe. The idea of the bills of lading brought in by such a firm being forged was inconceivable. But this proved to be the case. The whole of the documents were forgeries, bills of lading and policies of insurance together, skillfully contrived by the head of the firm, in order to present a perfectly genuine appearance. He was the guilty party, and was arrested at once. Trial, of course, followed. The facts were indisputable, and the only plea put in was insanity—a plea that might well carry some weight in such extraordinary circumstances. For, though such a firm might possibly *fail*, the failure would not have been an extraordinary matter in that trade, in a time of falling markets. And such a failure would carry no stain of personal dishonor compared with that which would arise from the commission of a crime. It might well be called an act of moral insanity for a man to perpetrate such a deed on the eve of insolvency; for its effect was merely that some one or more of his creditors would be paid in full, while another creditor would be created to an equal amount. It was not moral insanity, however, that was pleaded; but actual insanity: such insanity as would make the party irresponsible for his actions, and justify his incarceration in a lunatic asylum. The plea carried weight to this extent, that the judge who tried the case ordered that the prisoner be committed to the state lunatic asylum, for the purpose of testing whether he were insane or not.

Meanwhile the affairs of the firm were placed in the hands of an assignee, and the usual course in such cases was followed. Scarcely

enough, however, was realized to pay the costs of liquidation, and the bank concerned lost the whole amount of its advance. The head of the firm remained in the asylum for a time, and was then relegated to the custody of the officers of the law, no definite decision having been reached. Strong influences were brought to bear, and the court finally allowed the prisoner his liberty, under an engagement of reappearance. As time went on, the case and its circumstances and all concerned in it were forgotten, in the rush of new events. The affair sank into oblivion, and has so remained to this day so far as the public are concerned. The directors and officers of the bank, however, are not very likely to forget it. The case is one of the most singular developments of human nature, and human folly, that ever arose in banking annals.

The only comment that can be made upon the action of the bank in the case is that they should have noticed that the application was for a *loan* on bills of lading, instead of for the negotiation of a bill or bills of exchange, with the bills of lading attached. Enquiry might have been made why the usual course was not followed. Any departure from the ordinary course of things may naturally, at any time, give rise to enquiry. In fact, it should always do so, as such a departure is, at times, an indication of a more grave irregularity than a mere matter of form. In this case it is, at least, possible that enquiry might have revealed something that would have put the banker on his guard. Some hesitation in manner might have been apparent, some awkwardness in explaining the reason why bills were not offered, some contradiction in statement, that might have led to a request for time to consider the matter, which consideration might have led to further enquiry, which would have exposed the contemplated fraud. And though it is easy to be "wise after the event," there can be no doubt that a considerable part of the most valuable experience that a banker possesses is a record or recollection of just such occurrences as are noticed in these chapters.

Of a very different description is the case now about to be presented.

In a certain district of the northern part of this continent, few men had a higher reputation some years ago than the treasurer of certain country municipalities, who united to put their financial affairs into his keeping. His account was with one of the banks of the district, and for some time had been carried on satisfactorily. These municipalities were in the habit of borrowing sums in anticipation of taxes to be collected, which loans were upon certified resolutions of the municipalities. But one day a rumor spread abroad that this gentleman had disappeared; then, following upon this that he had large amounts of the funds of the municipalities in his possession. Enquiry, of course, followed. It was then discovered that some of the documents on which the treasurer had obtained money were forgeries, the result, of course, being that the municipalities were not responsible. Detectives were set to work, and the manager of the bank was authorized to follow the fugitive, accompanied by a local constable who knew him. Traces were found here and there, at points further and further south, and it became evident at

length that he was on his way to Mexico. He crossed the Rio Grande and then supposed he was perfectly safe, there being no extradition treaty between Mexico and Great Britain. However, the manager who was a man of energy and determination, decided to continue the pursuit, and confront the forger, if he could find him. He followed him to the City of Mexico, obtained the aid of the British Ambassador, found the man, and at length succeeded in having him taken to Vera Cruz and put on board a British steamer bound for the West Indies. He was now in safe custody. The manager and the constable kept their prisoner in charge and had him transferred to a West Indian steamer sailing to Liverpool. From thence the parties proceeded back again across the Atlantic, landed on British ground, thence proceeding half way across the continent until they arrived at the city where the fraud had been committed. Thus, after a journey of nearly twenty-thousand miles, the criminal was brought back, much to the astonishment of the community where he had lived, and especially of the people of the country municipalities, whose names he had fraudulently used. He was tried, convicted and sentenced to a long term of imprisonment in the penitentiary. The energetic action of the bank in following this man over such enormous distances produced such an impression upon that community that though some fifteen years have elapsed since those occurrences, no serious case of forgery has since transpired in the city.

In this case, it does not seem that any want of care could be imputed to the bank, in their dealings with this man. But as it is not the only instance, either in Canada or the United States, where treasurers of municipalities, and even of churches and missionary societies, have committed fraud in their dealings with banks, it does seem desirable, and necessary, for bankers to take special care in regard to such accounts, and to insist upon such checks, by continuous audit, or otherwise, as would put efficient obstacles in the way of wrong-doing, on the part of treasurers.

The next case cited is of a totally different character from any of the preceding.

One of the most remarkable cases of forgery that have transpired within the last quarter of a century was that of a prominent merchant in a large seaport of Great Britain, where an extensive trade was carried on in the raw material of the manufactures of the district. He was a man of great energy and ability, not a native of the place, but one of that large class of foreigners who have established themselves in the centres of trade of these times. His business was that of an importer, and that on a large scale. His customers were the manufacturers of the district. They settled their accounts by acceptances or promissory notes. The "paper" was of that class which bankers always consider with high favor; and very naturally, being founded, when genuine, upon bona-fide transactions, and both names to every bill being generally of a high class. Suddenly, however, an event happened—for such events always happen suddenly—which was the beginning of a revelation that

astonished the bank and the whole district. One of the bills was returned protested for non-payment; the bank at which it was payable having no advice, and no funds. The discounting bank naturally thought that some clerical irregularity had transpired, some letter had been mis-posted, some remittance gone astray, and notified the acceptors at once, expecting a check in payment by return mail. Instead of this came the alarming announcement that the drawees had never accepted such a bill at all. Recourse was instantly made to the merchant, who had, in the ordinary way, been notified of the dishonor of the bill. But his place of business was closed that morning, and he himself, had left the city. Then gradually came a full revelation of the whole extent of the wrongdoing. Bill after bill came back under protest, one house after another wrote in the same terms as the first, namely, that they had never signed such bills. It was like a succession of thunder-claps to the bank, for nearly all the bills were of large amount, running into thousands of pounds. Finally, the whole extent of the fraud was realized, the loss being serious enough to require to be charged to the surplus fund of the bank. The fund, however, was well able to sustain it, and the bank went on with its business as usual.

In this case, the general impression among bankers and merchants in the district was, that no blame could be attached to the bank; or that any imputation of *laches*, or negligence, could lie against the managers. The frauds had been carried on with extraordinary ingenuity; the forger even had printed or engraved copies made of the forms used by the drawees of bills, for correspondence, promissory notes, and acceptance of bills, when acceptance was made by a stamp. And the forger having a good reputation, established trade, and good connections both at home and abroad, there was everything in the circumstances to inspire confidence. But, as has been observed, it is generally only in circumstances like this that forgeries of any extent can be carried out at all.

There is this, however, finally, to be said, that in most cases of fraud and forgery, there arise little circumstances, which if noticed at the time, might be followed up, and lead to increased watchfulness as to other circumstances, which course in some cases would lead to a discovery in the early stages of wrongdoing, and prevent loss later on. For in all cases of fraud the tendency is to grow worse and worse, the amount becoming larger and larger until discovery puts a stop to the whole affair.

The sum of the whole matter is this, as respects employes: whenever a bank officer or confidential employe of a mercantile house is known, or suspected with good cause, to be living beyond his means, or to be gambling, or indulging in betting, or keeping company with gambling or betting men, or speculating in stocks—the sooner the matter is taken in hand the better. For delays in such matters are always dangerous.

CHAPTER XXXI.

A BANKRUPTCY LAW.

BANKERS INTERESTED IN THE SUBJECT—ORIGINAL LAW AROSE FROM SUFFERINGS OF IMPRISONED DEBTORS—CONTINUED FOR VARIOUS REASONS, THOUGH IMPRISONMENT ABOLISHED—EFFECT OF DISCHARGE CLAUSE—GREAT ABUSES DEVELOPED—AT LAST ABOLISHED.

IT should be stated at the outset that the insolvency of *banks* is dealt with in special clauses of the Canadian Banking Act.

In spite of the caution with which their business is conducted, and the securities they take, bankers and merchants sometimes find themselves confronted with that ugly spectre, the *bankruptcy* of their customers. This is especially the case in those difficult times, which, as all experience shows, are sure to recur when the commercial pendulum swings from prosperity to adversity. The insolvency of an important customer in a large centre may bring a number of other insolvencies in its train, so that a banker who has discounted a considerable amount of bills for a wholesale merchant who has failed may find himself, by that one failure, a creditor of a dozen or more bankrupt estates in addition.

The subject is one with which all bankers of long experience become unpleasantly familiar; dealing, as they do, with all sorts and conditions of debtors in all sorts of times. They can speak, therefore, with some measure of authority on the subject. For this reason, whenever Parliament has taken the matter seriously in hand, and an important bankruptcy law has been submitted to it, bankers, as well as merchants, have been invited to state their views to the special committee in charge of the subject.

There are many causes for insolvency; some of them involving more or less of culpability on the part of the insolvent. Such, for example, as entering on business without experience or sufficient capital; carelessness in carrying on business; neglecting to insure; neglecting to keep books; foolishness in giving credit; idleness; neglect of business for politics or pleasure; extravagance; speculation in outside matters, becoming guarantee for others, and so on.

Nine out of ten of the insolvencies that occur are traceable to one or the other of the above causes; and clearly put upon a creditor the responsibility of enquiry as to the cause, whenever an insolvent debtor seeks to be released without paying his debts in full.

If a trader becomes unable to meet his obligations there is nothing in either law or custom to prevent him approaching one or more of his creditors, and asking them either for simple delay, for a formal extension, or for a release on terms submitted. No law is needed to enable

the application to be made and dealt with. The matter is purely one for private negotiations; with this condition, however, that no engagement with one creditor will bind any other. Nor will an agreement of a majority of creditors, in meeting assembled, bind any of the rest, unless under the provisions of an Act of Parliament. And here we touch the fringe of that complicated and difficult subject of a *Bankruptcy Law*, which has so often baffled the wisdom of legislatures to settle on equitable terms.

It is well known that Canada as a whole, after having experienced the working of more than one general Insolvency Law during a course of years, finally allowed the last of them to lapse, and has never enacted another. But as there are some undoubted disadvantages in this lack of a general law, it is desirable, in a work like this, to consider the general principles on which such a law should rest, in case it occupies the attention of Parliament again; and while doing so, to consider how far certain laws of the several provinces fulfill the requirements of the case.

In order to deal with this matter it will be needful to "begin at the beginning," and consider the relations of debtor and creditor as they are affected by the ordinary operation of law.

REMEDIES AGAINST DEBTORS.

When a debtor neglects or refuses to satisfy his creditor, the latter can invoke the power of the law to compel him to fulfill his contract. Every debt is the result of a contract. It is *prima facie* the province of law to enforce the fulfillment of contracts; hence a creditor can call his debtor before a court, state his claim, prove it by evidence if he can, and ask for judgment. The debtor can also plead; but unless he can prove that the claim is unjust, either as to time, or amount, or in some other way, judgment will be given against him. It is needful to note that the powers of a court extend simply to the determination of the amount due, the time when due, and to the enforcing of payment. An ordinary court can neither grant time, nor abatement, nor release.

Following upon judgment, is the seizure of the debtor's property by an officer of law, its sale, and the payment over of proceeds to the creditor. If the proceeds are sufficient and the debt paid, there is an end of the matter. The law has fulfilled its object, and the creditor is satisfied. But if the officer of law cannot find any property of the debtor, or if such property does not realize enough to pay the debt, what then?

As the law now generally exists, and has done for some time past, it can do nothing more.

But under the old administration of law not only could the debtor's property be seized, but his person. The operation of law was, until a recent period, exactly as it was 1,800 years ago, as described in a graphic passage in the Sermon on the Mount. Counsel is there given to a debtor as follows, *Agree with thine adversary quickly, whilst thou art in the way with him; lest at any time the adversary deliver thee to the Judge.*

and the Judge deliver thee to the officer, and thou be cast into prison. Verily, I say unto thee thou shalt by no means come out thence until thou hast paid the utmost farthing. This has a wonderfully modern sound, for it exactly describes what would have taken place in England nearly up to the middle of the nineteenth century. The debtor could be put in prison, not, as in criminal matters, for a week, a month, or a year, but until the debt was paid.

The difference between the criminal law and that respecting debtors was remarkable enough. The criminal, at the expiration of his term, was a free man and discharged of all obligation. His imprisonment constituted a sort of claim to discharge; but with the debtor, imprisonment operated in no degree towards his discharge. Unless the creditor consented, in prison he must remain for the whole of his natural life. Numerous cases of this kind did actually occur. The term "*rot in prison*" has become incorporated into our language, and expresses exactly what occurred in many cases under the ordinary law.

English literature tells only too truly the stories of suffering endured by insolvent debtors in London prisons; for one singular feature of this matter is, that while the Government was obliged to support *thieves* and *burglars* while in prison, no support whatever was provided for the imprisoned *debtor*.

ORIGIN OF INSOLVENCY LAWS.

It was under these circumstances that the first movement for an insolvency law began. The object was primarily *the release of imprisoned debtors*; and the title of early acts of Parliament on the subject was "*An act for the relief of insolvent debtors*; the relief being, not to provide them with necessary food and comfort, but to give them a discharge from prison and from their debts.

Such a law, of course, would only be needed to compel unwilling creditors to be satisfied with what the ordinary course of law had failed to give them. Thus, in its very inception, an insolvency act contradicts and traverses the ordinary operation of law. The law is to give effect to contracts, but the effect of an insolvency law is to break them.

But the cases of hardship, and even of cruelty, were so undeniable that the force of public opinion became strong enough at length to insist upon a way of legal relief being opened.

It was in these circumstances that the first act for the Relief of Insolvent Debtors was passed. That act provided for the constitution of a special court, whose functions were to be the exact opposite of an ordinary one. The ordinary court was for the administration of justice; this was for the administration of *mercy*. And to it the unfortunate and impecunious (but presumably honest) debtor was allowed to appeal and plead for his release from prison. His creditors, as a matter of course, were allowed to appear also, and to show cause to the contrary, if they were able.

If the creditor could prove that his debtor was keeping back money

or effects, or that there was an element of fraud in his conduct, or that his statements had been characterized by lying or deceit, the court had little mercy to show him. It was not for such as he that the court was created. On the other hand, if the debtor could prove that he had done what he could, or that he had no friends upon whom he could call for relief, that there was no fraud or misrepresentation in his dealings, and particularly that he was suffering in body and mind by continued imprisonment, the court would, in many cases, open the prison doors and allow him to go out free.

But if any of the jolly fellows of the "Jingle" or "Smangle" sort had the impudence to apply to the court, they would be laughed out of it and sent back to confinement. In prison they deserved to be; and in prison they must remain.

Such was the general idea embodied in the first insolvency legislation. It was for the administration of mercy.

It was a matter of course that a class of attorneys would devote themselves to cases of this kind, and be known as men *who could get debtors out* by passing them through "the court." The ways of this class and the incidents arising out of their profession are accurately and humorously dealt with in the pages of many of our novelists. In course of time a class of houses of temporary detention arose, called "sponging-houses," where a debtor under arrest was allowed to remain, under strict confinement for a few days, to give him opportunity of effecting a compromise with his detaining creditor, or calling upon his friends to help him with money.

It cannot be too emphatically noted that the whole *raison d'être* of the law for the discharge of debtors against the will of their creditors, was this very power of *imprisonment*. But for that it is very doubtful if such a law would ever have been enacted.

Thus, when imprisonment for debt was abolished, it might naturally be supposed that insolvency laws would be abolished with it.

But in the complicated circumstances under which credit is given in modern trading and banking, it was still deemed desirable to retain some other mode of settling affairs between debtor and creditor than the ordinary process of law afforded. The dominant idea of this, however, had reference to a class of evils that scarcely existed in former days.

For example, it was sometimes the case that a debtor who had many creditors would treat some of them unfairly; giving a preference to one or more when he knew himself to be insolvent, or paying one in full, and leaving the rest to scramble for the balance of his estate. The ordinary machinery of law might itself be abused to this end; for on becoming embarrassed, and several creditors suing a debtor, he could defend one action, and allow judgment to be entered for another. For this the law afforded no redress.

In other cases, a trader, knowing himself to be unable to pay his debts in full, might go on trading at a loss, wasting more and more of his estate (or perhaps secreting money), until it was wasted entirely

away; leaving nothing for his creditors to realize upon. Here, again, the law afforded no means of redress. All that any creditor could do was to refuse to sell the party more goods, and to sue for balance due.

But the process of ordinary suits affords so many opportunities of delay, that a whole estate might be wasted during the progress of one of them.

On the other hand, a creditor might under some circumstances obtain what is known as a "snap" judgment against a debtor, who would be compelled to submit to the sale of his goods at a sacrifice by one creditor, leaving him indebted to many more, while the means of payment had been taken away.

For these and for other reasons, there arose a desire on the part of creditors for the enactment of a law which would prevent these evils, and ensure, first, an equitable division of an insolvent estate; second, the power of stopping an insolvent debtor from wasting his estate; third, the prevention of unjust preferences; fourth, the punishment of fraudulent debtors.

These were the primary objects thought of when the subject of insolvency legislation was broached as applied to debtors who were personally free. But though no act could now properly be styled "An act for the relief of Insolvent Debtors;" that is, by releasing them from prison, no sooner was insolvency legislation broached, mainly in the interest of creditors, than pleas began to be put in on behalf of the debtor. There were, it was alleged, other forms of relief that were needful.

Thus, it was urged, why should a man not be relieved from the burden of his debts when he had become unable to pay them and surrendered his assets? What equity was there in taking forcible possession of a trader's effects and dividing them amongst his creditors, unless he were discharged from his debts? And why should a man be forcibly prevented from carrying on his business, when the ordinary courts had not been appealed to for redress?

These and other pleas for the debtor were put forth for consideration whenever it was proposed to protect the creditor by a bankruptcy law. Indeed, it was held by some that an insolvency law was no insolvency law at all if it did not provide on some terms for an insolvent's discharge. They argued that the very groundwork of such legislation was to *relieve the insolvent*, not to assist the creditor. The creditor is sufficiently protected, it was argued, by his power to get judgment and seize his debtor's goods; why, then, consider him alone in the matter? To which the obvious reply was, that former acts for the relief of the insolvent debtor had relation to different circumstances. It was to prevent cruelty and oppression, and had always been preceded by the obtaining an ordinary judgment at law, and the declaration that the debtor had no seizable goods. But to discharge a debtor against the will of his creditors, or any of them, and while he was perfectly at liberty, personally, was contrary to the first principles of justice. Even to enable his property to be seized and divided amongst his creditors was no valid ground for

claiming a discharge; for his property, if he was insolvent, really belonged to his creditors in any case.

It was further argued, that the reasonable course for a debtor to pursue when he could not pay his debts, was to approach his creditors singly, or call a meeting of them, and offer to pay what he could, and ask for a discharge. They would be acquainted with his affairs and with himself, from having done business with him, and might be trusted to act reasonably according to circumstances. And the necessity for obtaining the consent of each of his creditors would be an effectual check upon that scheming to effect an unjust settlement which was so great a temptation when discharge could be granted without that consent.

PRINCIPLES OF INSOLVENCY LEGISLATION.

Such were the arguments, *pro* and *con*, that arose at the outset of any proposal for insolvency legislation.

Yet there was much on which all parties were agreed. Thus, all were agreed that a law should be passed to prevent or nullify preferences; and all were agreed to what necessarily followed, viz., that if a person were really insolvent and his effects were divided amongst his creditors, they should be divided *pro rata*.

But there was division of opinion as to the advisability of stopping a person who was carrying on his business when a suspicion arose that he was wasting his estate; also as to whether the law should undertake to discharge a debtor at all if any of his creditors objected. If the principle of a discharge were agreed to, there was great diversity of opinion as to its terms, one class of legislators leaning towards the debtor, and desiring his "relief;" the other contending for the claims of the creditor, and that strict justice should be the object aimed at.

Another point of division was as to creditors holding security. The questions as to this were found to be numerous and of an intricate character; secured creditors naturally pressing their claims for what they considered to be equitable, against the views of others who were disinclined to give secured creditors any consideration.

The most difficult question under this head arose in connection with bankers who were claiming on the estate of a wholesale merchant, for whom they had discounted the bills of numerous customers. So long as the merchant was solvent, the bank had no correspondence with his customers. But the moment he went into insolvency it became necessary to deal directly with the parties to this discounted paper. There might be fifty of them; there might be one or two hundred; and those living in all parts of the Dominion or elsewhere. As a rule, many of them would be dependent upon the principal house, and some of these would go into insolvency also. Then the bank would find itself a creditor of many subsidiary insolvent estates; while a certain proportion of the rest would be embarrassed by the demand of payments at maturity, and request time, possibly also offering security by way of second mortgage or

endorsement. With such an extraordinary mass of complications arising out of the failure of a single wholesale house, the winding up of its affairs would sometimes occupy years; and what would be the banker's final claim upon the bankrupt estate of his customer, it would be impossible to say. Under the common law bankers had a right to claim upon every single bankrupt estate for the full amount of its discounted paper, and to collect from it all that was possible, claiming upon one estate after another, until the entire mass of paper was paid in full. And if it was claimed that in all equity a bank should value its securities and claim for the balance, the bank could point out that while it was comparatively easy to value a single mortgage or even a single endorsement, it would be practically impossible to value security consisting of claims upon numbers of other people, some of them already insolvent, and some who might possibly become so.

The whole subject of insolvency bristles with difficulties; but notwithstanding this, more than one strong Government in Canada, and also in England and the United States, has taken up the subject and carried through bankruptcy bills. But the last of such bills in Canada came to an end about fifteen years ago, and although strenuous endeavors have been made to carry others through Parliament, no Government has had the courage to take the matter up and carry a bill through as a Government measure.

For this inactivity various reasons have been assigned. The most important of these was the undoubted fact that in actual operation the former bill came to be looked on, practically, as a bill *for the promotion of insolvency*. A class of men was developed in connection with it, as under other insolvent acts, who made a special business of assisting embarrassed debtors to obtain a discharge. That there is a legitimate field for accountants and commercial lawyers in connection with insolvent estates, there can be no manner of doubt, whether under an insolvent law or without it. But under the last act abuses crept in, and it came to be generally known, that by such and such intervention, debtors could obtain a discharge, with the least trouble, the least expense, in the shortest time, and without interruption to their business. Above all, the prospect was held out that after a discharge was obtained the debtor would have a substantial capital left, and be enabled to carry on his business in comfort and security. In the opinion of many observers, the root of the mischief was in the fact that a discharge could be obtained under the act if a debtor's estate yielded only fifty cents in the dollar. The operation of this clause, it was said, was to fix a standard. The law of the land under it recognized that fifty cents in the dollar was a reasonable amount for a debtor to pay. If he offered that, he might be recognized as an honorable man. If a creditor was not satisfied, and demurred or opposed a discharge, the law could override his opinion, and compel acquiescence, unless, indeed, actual fraud was proved.

An anomalous condition indeed for the law to create; and it is well to note how it came about; also how it came to be so generally abused.

When this discharge clause was under consideration by a parliamentary committee, and it was contended that fifty cents was too little, the reply was, that there were so many expenses connected with insolvency, and so serious a depreciation when goods and property were sold by an assignee, that fifty cents in the dollar was a fair residuum, and proved the failure to be honest. The argument was plausible, and the fifty cents clause was adopted. But it was also provided that if the debtor, after surrendering his estate (which he could do without stopping his business) succeeded in inducing a certain portion of his creditors in number and amount to consent to a compromise and accept fifty cents, a discharge could be obtained in spite of the opposition of the rest.

ABUSES ARISING UNDER THE LAW.

Here it was that the root of the ensuing mischief lay. For the idea speedily began to prevail that there was no dishonor or discredit to a man who had failed, if he had only paid fifty cents in the dollar. And this was specially the case when difficult times supervened, and bad debts rose above the average. Under these circumstances many traders who were in temporary straits, but were perfectly solvent, began to see an easy way out of their difficulties, not by making an assignment and allowing their stock to be sold and their accounts collected by an assignee, but by the much easier and economical process of offering a *composition* of fifty cents or more, under the act. Thus, a large expense would be saved, and the business could go on in the meantime. The assignee or accountant would receive his commission, and act as the insolvent's friend in persuading the requisite number and amount of creditors to consent.

It was not difficult in ordinary cases for this to be secured, for the alternative was that a large additional expense would be incurred, much time lost, and goods slaughtered, with the doubt whether some portion of the estate could not be concealed, and as a final result a smaller dividend than fifty cents declared.

The result generally was, that the insolvent who had got his stock into his hands by paying fifty cents in the dollar for it, was able to undersell his neighbors who had hitherto paid their debts in full. A further result then followed, viz., that some of his neighbors, whose trade was interfered with, began to think of passing through the same process themselves. This they not seldom did, for money was to be made by it; moreover, less and less discredit came to be attached to it, until in time the idea of discredit had almost passed away.

Thus, the virus of mischief spread until the trading community was honeycombed with it; and a wholesale merchant could never be sure which of his customers would approach him next with an offer of compromise.

What an opportunity this condition of things afforded to the debtor whose sense of honor was not of the strongest, it is needless to point out. Suffice to say, that between the weak-kneed debtor who was temporarily embarrassed, but could and would have paid his debts but for induce-

ments to compromise, and the fraudulent debtor who laid himself out deliberately to feign embarrassment and plunder his creditors, the mercantile community became so disgusted with the operation of the act that a universal sense of relief was felt when it was abolished.

DIFFICULTIES IN FRAMING A BANKRUPTCY LAW.

It has been stated that it is extremely difficult to frame an equitable and serviceable bankruptcy law. The difficulties may be stated as follows:

First, to avoid making bankruptcy so easy as to tempt unscrupulous men to embrace it who are able to pay their debts. For this reason it is that the discharge clause is the one which, more than all the rest, requires consideration.

Second, to avoid making the administration of a bankrupt estate so expensive as to damage both the debtor and his creditors.

Third, to deal with the question of the security given to a creditor previous to bankruptcy so as to avoid doing injustice on the one hand to the general body of creditors, or on the other to the secured creditor himself. In this case the difficult question is whether the consideration given for the security was equitable and reasonable.

Fourth, the mode of adjusting the *ranking* of creditors holding security requires special care and some technical knowledge.

Fifth, it is found difficult in practice to frame a bankruptcy law which has not the effect of creating a class of persons whose interest is to promote insolvency, and suggest it.

Sixth, it is also difficult to frame penalty clauses which will not bear too severely on those who have done wrong through carelessness or inadvertence, and not severely enough upon traders who have knowingly and deliberately been guilty of actual fraud.

The great objects to be obtained by a bankruptcy law have been treated in the foregoing pages, but may be briefly summarized in this, viz.:

(1) To prevent preferences being given to one or more creditors at the expense of the rest.

(2) To prevent debtors wasting or making away with their estate when getting into difficulties, and apparently becoming unable to pay their debts. Here a distinction should be made between being unable to meet engagements *as they become due*, and inability to pay debts in full at all. It was a great error in some former proposed bankruptcy acts in Canada to declare that a man was insolvent if he could not pay his debts *as they became due*.

(3) To insure equitable and economical distribution of bankrupts' estates; and

(4) To enable discharge of competent and worthy debtors to be had on such terms as will not on the one hand encourage idleness, extravagance, and bad business conduct on the part of the debtor; and, on the other hand, will prevent harshness and cruelty on the part of one, or a small number of creditors. A discharge clause should be so framed also

as not to make it an object for a trader to fail and make money out of his failure.

If a bankruptcy law is ever submitted to a Legislature in Canada, its members will, of course, consider the former laws on the subject, their excellencies and defects, and why they were suffered to come to an end; and also the bankruptcy laws of other commercial countries, and particularly of Great Britain and the United States, ascertaining whether such have worked satisfactorily, and are accomplishing the end aimed at.

It would be well also to consider whether a bankrupt law of limited scope might not be desirable; such, for example, as one that would prevent preferences, punish fraud, stop waste, make equitable distribution, but not give a discharge; leaving that for settlement between the debtor and his creditors.

It might be worthy of consideration also whether a bankruptcy law might not be passed with a limitation of time, an idea that has commended itself to various legislators.

SUMMARY OF THE AMERICAN BANKRUPTCY LAW.

This law is a general one for the whole Union. It is comprehensive, and fairly covers all the points to be considered. It is precise in regard to matters which were not clearly dealt with in former Canadian laws. It emphasizes in some of its clauses the important distinction between *voluntary* and *involuntary* bankruptcy.

But the distinction is not sufficiently preserved throughout the act, as will be apparent to any one who carefully reads it.

Amongst the numerous provisions of this act, the following are the most noticeable:

(1) The *ordinary courts* are given jurisdiction in cases of bankruptcy, and no special court for dealing with them is created by the act.

(2) The words bankrupt and bankruptcy are used throughout, and not insolvent and insolvency. There are good reasons for this.

(3) Farmers and wage-earners cannot be made involuntary bankrupts; though they may be embraced within the provisions of the law, if they are willing so to be.

(4) A bankrupt may offer a composition only after a meeting of creditors, or examination in open court.

(5) A discharge may be agreed to, if accepted by a simple majority of his creditors, both in number and amount. No maximum is named of either as necessary; and no minimum of the amount to be paid or realized. But no discharge can be confirmed unless the amount of the composition and all preferred claims and charges shall have been *actually paid in*. This is an important point, and differs from what has hitherto prevailed in Canada.

(6) The judge is required to confirm a discharge, if satisfied, (1) that it is for the best interest of the creditors; (2) that no fraud has been committed, or duty owing to them neglected; (3) that the offer and its

acceptance have been made in good faith, and not procured by improper means.

(7) But a composition may be set aside upon application of interested parties within six months, if it can be made apparent that fraud was used in the procuring of it, and that certain knowledge has come to the petitioners after the confirmation of the discharge.

(8) If a person who has been proceeded against in bankruptcy denies that he is insolvent, he is entitled to have a *trial by jury* as to whether he is so or not. This is a provision we have never had in Canadian law. Its wisdom is questionable, considering how trials by jury in civil cases often work.

(9) The question of preferences and securities is fully and equitably dealt with.

Amongst other clauses relating thereto are the following:

(a) The claims of creditors who have received preferences shall not be allowed unless such creditors shall surrender their preferences.

(b) If a creditor has received preference within four months of bankruptcy, and had reason to believe that it was *intended* as a preference, it shall be voidable, and the amount may be recovered. But if a creditor has been preferred, and afterwards in good faith gives the debtor further credit, this new credit may be set off against the amount recoverable.

(c) Secured creditors can only claim after deducting what the court may consider the value of their security.

Clauses follow as to the mode in which the value of such security is to be determined.

(10) The administration of estates is to be by officials of two classes; namely, *trustees* and *referees*.

These correspond somewhat to the liquidators and inspectors under former Canadian acts; but they appear to constitute in both cases an official class who give security to the court before entering upon their duties. These duties are minutely set forth in the act. But there is a singular want of preciseness in the directions *how* an estate is to be realized.

The general underlying principle seems to be that the trustees shall have the actual *handling* of the property constituting the estate; while the referees are an advisory and directing body, for the purpose of being a check upon the actions of trustees. It is made the duty of the referee to declare dividends, and to deliver the dividend sheets to trustees; also to examine all the schedules of the property of bankrupts together with lists of creditors.

(11) The compensation to the various classes of officers is precisely defined. Economy is evidently aimed at.

(12) The first dividend is to be declared within thirty days if the net money on hand amounts to *five per cent.* of the allowed claims. Subsequent dividends shall be declared upon like terms, and as often as the

amount shall equal *ten per cent.* But they may be declared oftener, and in smaller proportions, if the judge shall so order.

(13) Offences are very carefully set out, and apply to the officials and collusive creditors as well as to bankrupts themselves.

Altogether the act is one which evidences much care and thought in its compilation, and is well worthy of study if the government of Canada at any time should attempt to pass a general law upon the subject.

Its principal defect, and a very serious one it is, lies in the facilities it affords for a debtor obtaining an easy discharge.

When such a discharge can be granted on the consent of a bare majority in number and amount of creditors, and without any limitation as to the amount of the composition or dividends declared, the door is open to serious abuse, especially as it is provided that a discharge may be confirmed by the fiat of a single judge.

The act is also somewhat defective in not maintaining throughout all its clauses the necessary distinction of procedure and administration in the case of voluntary and involuntary bankrupts.

This act is stated by men of experience to work well on the whole, though it is not economical in its operation.

The following general suggestions on the subject are the result of experience and may be found worthy of consideration.

(1) If legislation is attempted, it will be well to consider *from whom the pressure for it originates*; what class in the community is calling for it; what class is suffering by reason of the want of it. Is it the debtor class; or is it the creditor class? And what has each of them to say on the subject? A settlement of such questions will determine much of the general character of the bill.

Besides this, it should be considered, as preparation proceeds, what dangers may arise from any unwise and incautious provisions of the act; and what were the reasons for former legislation having been abrogated?

(2) The general framework of a Bankrupt Law might be on the following lines:

I.—The words should be *bankrupt* and *bankruptcy*, and not *insolvent* and *insolvency*.

II.—A clear distinction should be made throughout between the proceedings in the case of voluntary assignments and compositions by honest debtors; and the forcible measures necessary in dealing with a debtor who is wasting his estate, giving preferences, secreting his effects, or committing frauds, singly or in collusion.

III.—The procedure throughout should always keep in view one or other of the objects aimed at; that is, either to afford facilities for a competent and honest debtor to continue in business after dealing equitably with his creditors; in which case he might retain practical possession of his estate, or that the law should aim at forcibly depriving a dishonest and incompetent person of his estate; realizing it economically, distributing it equitably, and closing out the business altogether.

IV.—Administration in bankruptcy should be by the ordinary courts;

but provision to be made for special sittings at definite times for dealing with such cases.

V.—A class of officials to deal with bankruptcy cases should not be created by law.

VI.—Liquidators, in all cases, should give satisfactory security. Their remuneration should be strictly defined, and power given to the court to deal with collusive or unreasonable charges.

VII.—If a composition contains preference clauses, it should, *ipso facto*, be thrown out, and the attempt dealt with as a species of fraud.

VIII.—Securities should be accurately defined; and procedure with respect to them set out with clearness and precision, yet without harassing unreasonably those who have an equitable claim to them. On the other hand, it should compel surrender of such as have been acquired improperly.

IX.—Discharge should in no case be granted unless concurred in by at least a majority of three-fourths in number and amount of creditors, and a net result of seventy-five per cent. to the creditors has been realized.

X.—Penalties to be precise, applicable to definite acts of wrongdoing, and severe enough to be deterrent.

In considering the question of discharge, too much weight should not be given to the plea that if a man cannot get a release from his debts, the community will lose the benefit of such services as he might render to it as a trader. For the very fact of the debtor's failure proves that hitherto he has not rendered the service to the community that is desirable. And experience proves that the best service that many men can render is as employes of others, and not as traders on their own account. There is no object, therefore, to be gained by granting a discharge that may be disapproved by a number of creditors in order that the debtor may be able to contract new obligations.

XI.—The full amount of the composition should be paid in or secured before discharge; or, as an alternative, the business of the bankrupt should be carried on under a controlling inspection, until the amount is fully realized.

An act framed in accordance with these suggestions would be found serviceable alike to the reasonable creditor and the honest debtor, and would be free from the drawbacks and disadvantages which led to the repeal of former laws on the subject.

CHAPTER XXXII.

INSURANCE IN ITS RELATION TO BANKING.

EXTENT OF INSURANCE—COST—“FIRE-PROOF” STRUCTURES NOT EXEMPT FROM DANGER—LIFE INSURANCE.

THE intimate connection between banking and insurance may be understood when it is considered that the mercantile loans and discounts of a bank should invariably rest on mercantile property or movables; that is to say, on goods that may be destroyed by fire, which destruction may render the payment of the loan or bills difficult or impossible. Hence it is of the first consequence to a banker to see that the property to which he looks for the payment of his loans is insured in sound and reliable companies. Even in the case of discounted bills for wholesale houses, it is perfectly reasonable for the banker to ask of his customer, are the makers of these bills insured? If their stock was burned could they pay these notes? Do you, in fact, for your own protection, see to it that the goods transferred from your warehouse to his store are insured after they get there? It is to be presumed that they are insured so long as they remain on your premises; are they equally safe from loss by fire when transferred to his? These are not impertinent questions, for they concern the very essence of the well-doing of both parties. A fire, to an uninsured trader, may mean bankruptcy to him, and a bad debt to his creditors. These are elementary principles which are observed, to a certain extent, by the majority of men in business. But it is always a pertinent inquiry whether property is insured to *the extent it ought to be*, or whether the person concerned is, or is not, one of the minority who take the risk of leaving their consumable property almost wholly uncovered.

EXTENT OF INSURANCE.

Let us consider these points in detail. First, to what extent ought goods to be insured? To this there may be more than one answer, for obviously all goods in transit by sea or lake should be insured for their full value at place of destination. This is, indeed, a universal rule. The bills of exchange bought or discounted by bankers, to which are attached bills of lading, have also attached to them *policies* or letters of insurance covering the whole amount of the bill. And a purchaser of such a bill would be negligent indeed if he passed such a bill for discount with no insurance policy attached. But goods in warehouse, store or factory are treated on different principles. Seeing that insurance costs money, the owner of a stock will consider what the probabilities are in case a fire breaks out, and whether it is necessary to have it insured for its full

value. To this question men will give answer according to their temperament. The cautious man will insure for all he can get placed on the goods, the sanguine and overconfident man will carry as much of the risk as he dare himself, or as much as his creditors will let him. But there is one general principle applicable to cases of this kind, viz., that *no man has a right to leave uninsured any goods on which he owes money.* Property which is absolutely his own and on which no claim of any creditor is based, a man may leave uninsured, if he so pleases. It is his own affair, and no one has the right to call him to account, unless it may be his wife or children, if he has them; for, indeed, he has no more right to injure them than he has his creditors.

With regard to the great staples of merchandise stored in warehouses, such as grain, flour, raw cotton, wool, etc., the custom is universal to insure up to the full value, if so much insurance can be placed. And this is reasonable. For, in a large majority of cases, such stocks have been advanced on by banks. In the case of merchandise such as lumber, piled up in yards and wharves, or hides, wool, leather and other staple commodities in warehouse, difference of temperament will lead to different lines of action. It is in regard to these that rates of insurance are apt to be high, varying according to locality and the combustible character of the goods. And being high, men are constantly tempted to save in insurance as much as they can. The only absolute rule that can be laid down is the one just enunciated, viz., that insurance should be placed to the full amount of any debt against the property, either direct or indirect. This is the very lowest that justice demands. A merchant or manufacturer, however, is bound also, in considering how much his insurance should be, to think of the preservation of his own standing, and the continuity of his business. This consideration would lead him, even in cases where no debt rests upon the goods, to insure for such an amount as would replace them in case of fire; and even, if possible, to such an amount as would compensate for the loss of time and business which a fire would occasion. This applies particularly to manufacturing establishments and mills. In all cases it is undoubtedly better to err on the safe side and to consider any additional amount paid for insurance (if it is reckoned to be additional) as well laid out in ensuring that quietude of mind which is an important element of success in business.

THE COST OF INSURANCE.

There are, however, in every community, persons who grudge the cost of insurance, considering it as so much *loss*, and prefer to take the risk of fire rather than pay it. That this is a "penny-wise-and-pound-foolish" policy such persons often find out. But some men still lean to such a course; and especially so where the occupation is hazardous and the risk great. "The premium is enormous," such a person will say; "my business cannot afford it." But in so saying they forget that insurance, whatever the rate may be, is as legitimate a charge on business as

rent and taxes. If the business will not bear the cost of insurance as well as these, there is something wrong with the management. If a man has been selling his goods at a certain price, without taking the cost of insurance into account, he has been selling them too low.

But, in reality, the high rate of insurance is a sort of signal hung out to warn men of the necessity of taking unusual precautions. An unusually high rate may be a reminder to a mill owner that his mill is not properly built, or that its internal arrangements with regard to heating or power are not well contrived, or that he is in danger from his neighbors and needs to take extra precautions on that score. It will warn him to look after his engine-room, or his power-house, or the manner in which his goods are stored, or whether he has proper arrangements for carrying about combustibles; or about smoking, or the use of matches. Still more will the high rate remind him of the necessity of appliances for an early extinguishment of fire should one break out. A high rate, that is, a *comparatively* high rate, will always arise from a consideration of these sources of danger, and should lead, not to the refusal to insure, but to the taking of all possible precautions, and keeping them constantly in operation.

A man who neglects to insure because the rate is high would be like a ship owner whose business is to sail across the Atlantic, not building his ship strong enough because it would be so costly; or a banker who contented himself with a mere fireproof safe because a steel-clad burglar-proof one would be too expensive. The real truth of the matter is that *the higher the rate of insurance the more need there is to insure.*

In speaking of a high rate, it is not the writer's intention to refer to the rates current over a whole city as compared with other cities. These may be high or otherwise, but they affect all kinds of properties and all sorts of risks in the same proportion. The high rate on which the foregoing reasoning is based is the rate which is high in proportion to buildings or stocks in other lines of trade, or even to buildings or stocks in the same trade where insufficient fire appliances, or defects of construction or proximity to other sources of danger, have to be taken into account.

But even when rates are high over a whole city as compared with other cities, the very fact is a danger-signal to all who carry on business in it, and should naturally lead to extra precaution and watchfulness. The same remark applies to certain districts in business centres where risky trades are carried on, and where a fire may extend over the whole area of the district before it can be put out.

"FIRE-PROOF" STRUCTURES NOT EXEMPT FROM DANGER.

It is sometimes pleaded by persons who neglect insurance that their premises are so well-built that they cannot take fire; or that they are so isolated that no fire of their neighbors can reach them, or that they take such precautions that no fire could possibly make headway. Experience,

however, proves how little reliance can be placed on such reasoning. *Fireproof* buildings have been burnt down. Iron will not burn, but it will get red hot and set fire to wood in proximity. Steel will warp and twist under heat and drag down floors. As to isolation, a great fire will cause flames to shoot out to a distance that might be deemed incredible by those who have not had experience.

Considerations of extra precaution or isolation, or of a superior style of building, may be fairly taken into account by one who is considering *how much* insurance he will place. But they should never prevail to such an extent as to lead a man to neglect insurance altogether. And no matter how free from danger a man may consider his property to be, he is bound to insure so as to cover any indebtedness against it, or against its contents. The first, indeed, will be certainly taken care of by a mortgagee if there is any encumbrance against it. The latter indebtedness will be to a merchant or a banker, who may not be as exacting as a mortgagee, but whose interests the debtor is as much bound to protect.

Thus far our observations have related generally to stocks of goods, these being the primary consideration for a banker or a merchant. Real property is no proper basis for a banker's loans, and he should have nothing to do with it, unless it comes into his hands as security for a standing debt. Then, he will, of course, look after the insurance as a matter of primary necessity.

But a banker, though he does not directly lend money upon the buildings owned by customers, has nevertheless a strong interest in their preservation; for it is a banker's interest that his customer's capital should not be impaired, and that his business should go on without interruption. If his customer's warehouse be destroyed, it is a pertinent question to inquire whether the insurance will cover the loss, not only on the contents of the building, but on the building itself. For a person may have a substantial capital, say in ground or water power, and yet, if his insurance does not enable him to rebuild, he would find it difficult to raise money to do it. In that case, he may have to curtail his business to an unprofitable extent, or to wind it up altogether. These are the risks of the man who does not insure, or who insures for an amount that is insufficient for contingencies.

There are, indeed, certain classes of property that are indestructible by fire. When a saw miller or timber merchant has got his logs into the water, there is no need to insure them, so long as they are floating down the stream or confined in a boom or cove. They are so safe there that even an incendiary could not set them on fire. But the moment a log is transferred to the mill and sawn into lumber it becomes combustible. Similarly, stocks of fish, so long as they are in the boat, are practically incombustible. But the moment they are placed in a "cannery" or fish warehouse they call for insurance. It is, however, on such debatable ground, as it may be called, that negligence or a disposition to take

undue risks may prevail, and a disastrous fire expose the folly of all parties concerned.

Though it is not strictly within the province of a banker to consider other kinds of risk, yet, as loans are sometimes made (as an exception) to bodies other than mercantile, it may be noted in conclusion that all the foregoing principles apply, with full force, to *them*. No body of college governors, or directors of benevolent institutions, hospitals, asylums, or officers of churches, has a right to allow the property of the institution to be jeopardized by neglect of insurance. The obligation is of necessity even stronger than in the case of a private individual. He may, if he will, jeopardize his own property, within certain limitations, as before stated. But boards of governors are trustees and guardians of the property of others. Such property has been created by public funds or benefactions; trustees are bound, therefore, by every obligation of honor, to see that the property entrusted to them is not only preserved from the *danger* of fire by ordinary precautions, but from *loss*, should fire unfortunately break out. With regard to institutions, such as colleges, where young people are boarded from time to time, it is obviously the duty of the authorities to insure, not only the building and furniture, but also the wearing apparel and other private property of the students and scholars. It is unreasonable that parents should take the risk of this, and be exposed to the charges incident to the refitting of pupils, whose clothing and books have been destroyed by fire. It is also incumbent upon college authorities, where pupils are boarded, to see, not only that their premises are insured to a sufficient amount, but also that proper precautions are taken against the danger from fire itself. Proper means of exit and preventives against fire spreading are their bounden duty to provide. The necessity of all proper precautions being taken has been demonstrated of late (1903) in a marked degree by the fires which have taken place—the one at the great public school of Eton, England, the other at Ridley College, Ontario, Canada.

LIFE INSURANCE.

Of this style of insurance, all that needs to be said is that a banker, if he advances at all, will never advance more than the surrender value of a policy; and if he takes a policy as security, will never consider the security to be more than such surrender value amounts to.

CHAPTER XXXIII.

THE NATIONAL BANKS OF THE UNITED STATES, AND AMERICAN BANKING.

ABSENCE OF BRANCHES—LACK OF NOTE REDEMPTIONS—LAW OF FIXED
RESERVES—EXAMINATIONS—STOCKHOLDERS' MEETINGS IN CANADA
AND THE UNITED STATES—OFFICERS OF AMERICAN BANKS—CERTIFI-
CATION OF CHECKS.

THE National Bank Act of the United States provides a safe and uniform currency for the whole country, as has been shown. But that currency is subject to one considerable drawback, as being a fixed quantity, and being incapable of corresponding with the movements of commerce. It wants what is known as elasticity.

All experience shows that agricultural communities are subject to great variations in the amount of currency required at different seasons. If then the volume of currency cannot be enlarged as that of Canada can, during the harvest season, and that of Scotland also (on condition of gold being held to cover it), there is apt to arise a period of monetary pressure whenever the crops require to be moved to market. The circulation required at the harvest season can only be obtained by drawing on the centres where it has accumulated during the interval. But in these centres such funds are invariably loaned or employed in temporary discounting. All such loans must be called in when the harvest demand sets in, causing a necessity for other arrangements, or a stringency more or less developed, and a rise in the rate for money to abnormal figures. Indeed, such a scarcity of currency has been known to prevail in the United States for a period of years, aggravating commercial depression and producing widespread disaster. The scarcity of currency in some agricultural districts at such times has resulted in practically putting them back to the primitive condition of barter.⁷²

ABSENCE OF BRANCHES.

Apart from the system of currency, with its excellencies and defects, the American banking system has several points of difference both from banking in Canada, and from the practice of England and Scotland. The most striking of these differences is that every banking office is a

⁷² It is on record in reply to enquiries instituted by the Chamber of Commerce of New York, about the year 1894, that over a large part of Western Virginia, at that time, money had so completely disappeared that a person in possession of a \$50 bill, being desirous of changing it, drove more than forty miles round about his village without being able to find as much money as fifty dollars anywhere. At this very time, across the border in Canada, similar districts were abundantly supplied with currency.

separate corporation, with its own capital, stockholders, and directors. Branches are unknown. The system of branches never prevailed in the United States to any extent, and they have now entirely disappeared. The law allows joint-stock banks with as small a capital as \$25,000, and though it may seem an anomaly to constitute a complete corporation, with the machinery of a separate bank for such a miniature concern, nevertheless numbers of such banks have been called into existence, and have rendered the same kind of service to the small towns of the United States as is done by the branches of banks in Canada.

But the service is not so efficient. For the branches of banks in Canada are managed by men who have been trained in banking principles and practices in the large institutions of the country. They are, for that reason, well qualified to judge of the transactions that come before them, and to discriminate against undesirable and insecure advances; in addition to which they have the advantage of constant advice from headquarters. They are also free from local prejudices and predilections, and are likely to judge of transactions on their merits. This, however, is not the sole advantage. A branch of a large institution carries with it the strength and safety of the parent corporation. It is therefore a safe place for deposits, in addition to which the whole resources of the corporation are available in case some enterprise in the locality should require larger advances than could be furnished by a local institution. Of the merits of the branch system in general, mention will be made more at large in the chapter on Canadian banking. The above, however, will suffice to suggest that the system of a separate corporation for each bank is not so advantageous for small communities.

LACK OF NOTE REDEMPTIONS.

Another peculiarity of the American system is that there is no redemption of notes. This has come about most naturally from the circumstances under which they are issued, for all are secured by deposit of Government bonds of the same quality, all therefore are nearly equal in credit and value. Hence they are all treated by the banks as money of a common stock. Many of the banks have issued all they have the power to issue. Redemption therefore answers no particular object and is never carried out.

LAW OF FIXED RESERVES—EXAMINATIONS.

But the two most striking features of American banking, next to its secured but inelastic circulation, are the requirements by law of a fixed minimum of reserve of cash or its equivalent, to be kept on hand, and next the system of bank examination by Government officials. With regard to the former it must be said that while it has a great attraction for those whose knowledge of banking is only theoretical, its benefits are illusory in practice. The system indeed has two fundamental drawbacks. It is calculated to aggravate banking difficulties in time of embarrass-

ment, and when there is a scarcity of money, the very necessity of the case leads to its provisions being violated. In all sound banking the keeping of adequate reserves of available funds is deemed a matter of vital importance, it being of the essence of a banker's business to be able to meet, at once, under all circumstances, every demand made upon him. To every prudent banker, therefore, the amount of cash reserves he has on hand is a matter of daily *attention*; and the watching of its ebb and flow, and the replenishing of his resources when the demands of business cause them to run down, a never-ceasing occupation. But a small consideration will show that it is a matter of imperative necessity, not only that he shall have an ample stock of lawful money by him, but that he shall have *command of the whole of that store at all times*. If, out of this store of legal-tender money, there is a certain amount he cannot touch, it is evident that for purposes of meeting demands upon him this particular amount might as well be non-existent. It is as if on some particular day he had locked up a large amount of reserve money in his safe and handed the key to the Government. No matter how much money he might have there, he might be compelled to stop payment and be ruined, because he could not meet demands out of the remainder.

This is exactly the position in which the American system places every bank. It ordains that a certain percentage of the liabilities of the bank must be kept in cash, or in the equivalent of cash. This legal percentage is undoubtedly a reasonable amount; such, in fact, as prudent bankers would seek to have on hand in the ordinary course of business. But it is evident that, when the law orders a banker to *keep* this amount of money by him, that amount is withdrawn from his use for meeting demands upon him. No matter what demands are made upon him in the course of a day's business, he cannot, if he obeys the law, touch that portion of his cash reserves to meet them. It is as if, in military matters, the law ordained that every general must keep twenty per cent. of his army in reserve, and forbade him to use that part of his force when a battle is going on.

But no General, if the exigencies of an engagement were imminent, could help bringing his reserves into play to prevent defeat. Self-preservation is the first law of nature. No statute law can override it. The position of a banker under a law of this description is of a similar character. In the demands of his customers he has a daily battle with circumstances. These demands must be met with money on the spot, or he is defeated and disgraced as a banker.

Thus, then it has come to pass, under the pressure of circumstances, in times of monetary scarcity, that American bankers have found themselves face to face with the problem, shall they use their monetary reserve to fulfill the contracts made with their customers, or shall they comply strictly with the law and refuse to pay their customers the money demanded. It is evident that when in this position the banker is in the presence of two conflicting laws. On the one hand is the law which

obliges him to fulfill the contract made with customers, on the other is the statutory requirement that forbids him to touch his store of money when it has run down to a certain sum. Placed thus between two contradictory requirements, it does not need much penetration to see what a banker's choice will be. The law of self-preservation, combined with the fundamental law of the inviolability of contracts, will lead him to pay the demands of the customers, though by so doing he violates the provisions of the statute law of banking.

This forecast of what would be likely to be done has been demonstrated to be correct by experience. Again and again have American banks kept on fulfilling their contracts with depositors, although the store of money required by law has gone below the limit. In such a public manner has this been done that it has been regularly published in financial journals. When these papers are publishing the condition, say, of the banks of New York city, they are in the habit of giving the figures of the monetary reserve as being *up to* legal requirements, or *above* them, or *below* them. Now, in the latter case they publish the fact that the banks have violated the law. This has repeatedly been done during the last thirty years, yet neither the Government, nor the public, nor banks in dealing with one another, have taken the least notice of it, except as an indication that money is scarce. It is for these reasons that Canadian bankers have invariably resisted any attempt to incorporate such a provision in the banking law of the Dominion, although, under pressure from doctrinaires and theorists, the Government has sometimes endeavored to effect it when the renewal of charters was under consideration.

Closely allied with the requirement of a minimum money reserve, is that of a system of Bank Examination. This system probably had for its foundation not so much the determination whether a bank's business was being conducted safely, as whether it was complying with the law in the matter of reserves. This necessitates an inspection somewhat of the same character as is given to the branches of banks in Canada, viz., a verification of the liabilities and assets of the office, not merely by a balancing of books, but by an actual counting of money and examination of bills and documents. The examination of an American bank, however, especially in large cities, is now carried beyond this, and embraces passing judgment upon the loans and discounts of the office. And when the examiner is a man of capacity, and has learned by practice how to bring his experience to bear upon current transactions, his visit is often found to be highly beneficial. But experience has proved that the examination is in some cases of a perfunctory nature, doing neither good nor harm. There have been instances in which, only a short time after an examiner's verification, a bank has been found to be utterly bankrupt. Further, when the examiner was a strong-headed, opinionated man, whose knowledge of business was in inverse proportion to his conceit, his visit would

be productive of harm. For he would find fault with transactions that were sound, and pass by others that were dangerous.

The examinations of the banks in the large cities, in New York especially, are well and carefully done, as a rule. Though the post is a political one, and therefore liable to changes, the Government, as a rule, takes care that men of intelligence and experience are appointed. An intelligent examiner will give the banker the benefit of his judgment as to the soundness of his discounts, and sometimes a hint that the paper of such and such a house was to be found in other banks, thus putting a president or cashier on his guard. The examiner's duty also embraces the overdue loans and bills of the office, with the securities held therefor; and it is his business to see that proper provision is made for such as are doubtful, and that such as are bad are written off. Securities in the shape of mortgages, properties, and claims, also bonds, stocks and guarantees are examined with a view to ascertain whether they stand at a proper amount in the bank's books. And when the examination is completed, a report is made to the Comptroller of the Currency in Washington, who passes the whole under review, and sometimes corresponds with the banks on points that seem to require it.

This examination of the American banks is another of the points sometimes put forward by theorists as desirable to be applied to Canada. But this is in evident ignorance of the difference in circumstances. To examine properly a single large office of a Canadian bank, doing a large business, is a laborious matter, occupying the time of several officials for three or four weeks, and entailing in addition a large amount of supplemental office work to bring all the threads to a point. But when a bank has branches, as nearly every Canadian bank has, the examination of any one of its offices is not an examination of the *bank*, for the bank exists with all its powers of creating liabilities and investing in assets, in ten, twenty, or even a hundred places at once; all of which must be examined on the very same day, if the truth of its published statement is to be verified. For example, the first column in the monthly statement made by Canadian banks to the Government gives the amount of their note circulation. This amount is ascertained by deducting the total of its own notes held by a bank on a given day from the total that has been signed and entered in its books. But those notes are held in forty, fifty or more separate offices, and the amount varies every day. They must be counted simultaneously therefore at the close of the same day, in every one of the offices. To do this so as to make a complete check would require the employment of a hundred men at least. But this would be only the beginning. The whole of the rest of the cash would require to be counted on the same day, and on the same day also the vast volume of bills discounted would require to be examined at every one of the offices. The deposit ledger must also be simultaneously balanced, the general ledger also, the bills for collection verified, the accounts with other banks at home and abroad checked over, and an enormous mass of verifying cor-

respondence entered upon, the results of which would require to be waited for before the examination could be said to be complete. To carry out all this efficiently in the case of any one of the large banks two hundred men at least would be required. Yet the examination even then would only have embraced one bank. Now, considering the number of banks in the Dominion, and the number of their branches, some of them in the United States, the West Indies and Great Britain, it is not too much to say that to do the work effectually would require the creation of an enormous Government department with at least a thousand trained officers. To do the work in any other way would be delusive and mischievous. The above statement should demonstrate the impossibility of the project.

STOCKHOLDERS MEETINGS IN CANADA AND THE UNITED STATES.

Another feature of American banking and one in which it differs in a marked degree from that of Great Britain and Canada is, that its banking corporations, apart from the returns they make to the Government, scarcely ever come before the general public. The annual meeting of the stockholders of one of the larger banks in Great Britain or Canada is an event of interest to the whole community. Reporters are generally present, remarks and comments are made by the president, and often by the chief executive officer, in which there is sometimes a review not only of the business of the bank, but of the financial and commercial position of the country. This is specially the case in Canada. Questions are asked by stockholders as to points in the annual statement, or as to profits or losses, and it is common both in Great Britain and Canada for stockholders to make remarks and criticisms. And when legislation is being brought forward on the subject, either in the Provincial or Dominion legislatures, the opinions of bankers are generally asked for and great weight attached to their answers.

But as a rule nothing of the kind is known in the United States. Unless something extraordinary is taking place, the newspapers take no notice of the annual meetings of banks, and as to admitting reporters, they would as soon be allowed to attend the weekly meetings of the board of directors. The banks are looked upon almost as private partnerships, so far as their individual action is concerned; the only notice taken of them is in their associated capacity, when their public statements are noted and commented upon purely in their bearing on the money market. As to their action as bearing on trade or commerce it is rarely thought of. Nor is it as bearing upon legislation.

The Annual Meetings of the Bankers' Associations, both of the separate States, and of the country as a whole, are the only occasions on which the larger questions are discussed which are common to all banks and which relate to banking as a profession. There, however, they are discussed with marked ability. The purely local character even of the large-

est American banks is doubtless the reason for all this, which, it should be borne in mind, has not arisen from legislation, but has been simply a growth of custom.

OFFICERS OF AMERICAN BANKS.

There are certain particulars in which the *internal economy* of American banks is different from that prevailing in Great Britain and Canada. The most important of these is in the position occupied by the *president*. The president of an American bank is, as a matter of course, a member of the board of directors, and subject like the rest to an annual election. And he is, by the very nature of his office, the chairman of the board. But in addition to this, he, in many cases, is the manager and chief executive officer of the corporation, and as such gives daily attendance, receives customers, arranges loans, discounts bills, opens or closes accounts, and appoints and supervises the staff of the bank. He has had almost invariably a training in the business of banking from the outset. He is thus able to perform with intelligence all the functions of the general manager of an English or Canadian bank. In the smaller banks of the United States, the duties of even a Canadian branch manager appertain to him. There are undoubtedly some advantages in this system, for the president being the chairman of the board of directors is able with perfect knowledge and with the weight of authority to carry out their policy in the bank's daily administration.

This ensures that there shall be no conflict between the chief executive officer and the board, and that, in case of difference of opinion, the views of directors shall prevail. It carries also the great advantage that in the board itself there shall be one who is perfectly conversant with matters from a banking point of view; a professional banker, in fact, whose information is varied, and his judgment sharpened by daily contact with customers and the public. Reasons like these have prevailed when on several occasions the general manager of a Canadian bank has been elected to the office of president, continuing nevertheless to exercise the same functions as before.

There are, however, disadvantages in the system. It is undoubtedly desirable that the chairman of the board of directors and the principal person amongst them, should be a man of wealth and importance in the community, apart from his connection with the bank. This it is scarcely likely that any officer of a bank could be. Moreover, it is certainly undesirable that the principal executive officer of a bank should be subject to an annual election, the continuity of the same person in such an office being a matter of importance. The carrying out of this system of making the president the chief executive officer involves also the making the office of cashier a position of secondary importance. He therefore has duties which though important are subordinate. His position in effect

is analogous to that of assistant manager in an English or Canadian bank.⁷³

CERTIFICATION OF CHECKS.

Another peculiarity of American banking, especially in the large cities, is the function exercised by the paying teller of certifying checks as "*good*." The exercise of this function by an officer who does not keep the accounts of customers, and does not charge such checks to account when certifying them, is somewhat of an anomaly, and seems to open the way to constant mistakes. For in a bank with a large number of accounts it seems impossible for a teller to recollect with sufficient accuracy the position of every account to make it safe for him to certify that checks are good. Experience, however, seems to justify the practice, and it is well known that the tellers of many English banks pay checks across the counter without any certification at all. Some banks in the North of England have adopted the practice of certification. But in their case the certifying officer is the person who keeps the account in the ledger, which is the more reasonable and safe practice. This is the case in Canada, and it is carried out with accuracy and precision there by charging the account of a customer with every check that is certified.

Altogether the system of banking carried out in the States is evidently adapted to the requirements of the country. The division into national banks and state banks arises naturally from the circumstances under which the states of the Union came to be at once separate and united. Both classes of banks are precisely the same in their internal economy. The want of elasticity, however, is a great drawback to the national currency, as has been observed, and efforts have been made at various times to cure this defect, which could be accomplished by the adoption of a system analogous to that of Canada. But the jealousy of banking corporations entertained by large multitudes of the people, especially of the Western States, has hitherto prevented any legislation in that direction; in fact, instead of turning their attention to such a practical matter as this, multitudes of the people have been misled into the advocacy of such a will-o'-the-wisp as the establishment of *silver* on an utterly impracticable and dishonest basis. This dangerous delusion has only been dispelled by the setting in, of late years, of a tide of prosperity over every part of the country and of every interest in it.

The interference by government in such a delicate matter of bank administration as the monetary reserve, and also the system of bank examinations under the supervision of a government bureau, are instances of

⁷³ In the early days of Canadian banking, and there is a survival of this system yet in some quarters, the chief executive officer of the bank, even when it had many branches, was called "cashier," instead of manager or general manager. But his functions were the same as those of the president of an American bank, and not of its cashier. The title of "cashier" is also used of the chief executive officer in some Scotch banks, as is the case also in the Bank of England. It is well known also that the officers who are called "tellers" in Scotland, are called "cashiers" in England.

what is a remarkable feature in administration in the United States, viz., the extent to which the powers of government are stretched. Such governmental interference is entirely unknown in the banks of England and Scotland, and it would never be tolerated if attempted. The same remark may also be applied to Canada.

One final word may be said as to the manner in which the Associated banks of New York are accustomed to act together for mutual protection in times of financial stress. Again and again, they have combined their reserves, the strong protecting the weak, and this with so much wisdom that no danger has been incurred, and no undesirable consequences have followed. The Clearing-House of New York, which has supplied the machinery for this united action, is beyond doubt one of the best, if not the best, managed institutions of the kind in the world.

CHAPTER XXXIV.

VARIOUS THEORIES OF NOTE CIRCULATION.

GOVERNMENT NOTE ISSUES—GOVERNMENT BONDS AS SECURITY FOR BANK NOTES—ISSUES OF THE BANK OF ENGLAND—BASIS OF CANADA'S BANK NOTE CIRCULATION—HOW ELASTICITY IS SECURED.

AMONGST the various theories that have prevailed on this important subject, the following have been the most important:

First.—That all promissory notes designed to pass as money should be issued by the Government of the country in which they are intended to circulate.

Second.—That all circulating notes shall be issued under Government supervision, and be strictly secured by Government bonds.

Third.—That circulating notes may be issued by banks chartered by subordinate legislatures, and secured by bonds issued under authority of those legislatures, or by bonds of railways, or municipalities.

Fourth.—That circulating notes shall be issued by a central banking corporation having exclusive dealings with the Government, such notes being secured in part by the bonds of the Government, the whole of the remainder being secured by gold exclusively set apart in a department for the purpose, and all would be legal tender.

Fifth.—That notes may be issued by banks without any restriction, and subject only to the check imposed by daily redemption.

Sixth.—That bank notes may be issued by banks duly registered as such, having circulating powers to a certain amount fixed by law; and, in some cases, to an amount over and above this sum, provided that gold is held for the excess.

Seventh.—That banks duly organized under a general act, and subject to the provisions of such act, shall issue notes to the extent of their paid-up capital; such notes being by law a first lien upon all the assets and resources of the bank, and further secured by deposits of money with the Government as a special redemption fund.

All these systems have been tried in actual practice at one time or at another time, in one country or another country. Some of them have been found, after experience, utterly wanting, and no longer exist, such as the Third and Fifth. Others of them exist at the present day and furnish the circulating media of various countries in which they are established.

It is proposed to consider these systems in their order.

GOVERNMENT NOTE ISSUES.

The first theory, namely, that the Government of the country should be the only medium for the issue of circulating notes was thoroughly dis-

cussed in Canada both by the press and in Parliament about the year 1866, when, under the auspices of the Finance Minister of the day, it was proposed to abolish the issue of notes by the banks and to substitute for them the notes of the Government.

The banks of the country, with one exception, were opposed to the Government assuming this function. Amongst other things, they stated that it would be impossible to put an efficient check upon over-issues by the Government, should pressing necessities arise, for with every Government the law of self-preservation is paramount, and would override all other considerations.

Second, that such issues, if continued, would inevitably depreciate the value of the bills and unsettle every financial interest of the country.

At the very time when this theory was propounded in Canada, the notes of the Government of the United States were at a heavy discount. (It may be added that eleven years elapsed before they were worth par.) It was pointed out that repeated experience had shown that there was no limit to the depreciation of Government notes; that every Government currency then circulating in the world was at a discount, Italy and Russia being cited as examples; that such currencies in former days, though issued by governments which had proved perfectly stable in other respects, had fallen to such a discount as to be practically worthless.

Finally, the broad ground was taken that, though it was the undoubted function of the Government to stamp coin, and give authority to issue notes, the function of redemption was one that peculiarly pertained to bankers; that nothing is more easy than to issue bills; nothing more difficult than to maintain constant redemption of them. Moreover, the issuing of circulating bills should be, and would be, if healthy, closely connected with the daily operations of commerce, which is not in the sphere of government but of banking. It was pointed out that a government as a borrower of money is, in many respects, in the same position as an individual, or an ordinary corporation; that there is no charm about the organization called a government to make it safe under all circumstances; that a government may fail to meet its obligations, may compound with its creditors, and may actually compound on the composition, as Spain has done. A government, it was said, may repudiate its obligations altogether (as has been actually the case), and may have its obligations protested by millions, and not make the slightest effort to pay them.

Such were the reasons which had weight with the bankers and people of Canada at the time named, and induced them to organize opposition to the project of having all circulating bills issued by the Government of the day.

It is true that subsequently in Canada an act of Parliament was passed, authorizing the Government to issue one and two dollar bills for circulation, and also bills of large denominations not for circulation, but for the convenience of the banks in making settlements with each other;

one provision of the act being that the banks should hold a certain percentage of their cash reserves in these notes. To this they submitted, seeing that the act required the Government to hold a large percentage of its issues in actual gold, and, in addition, to hold authorized debentures for the balance. This system is precisely that of the Bank of England. And to say truth, none of the dangers which were considered to be bound up with issues of the Government have transpired so far. Respecting this, however, two observations have to be made: first, that the system of Government issues in Canada for circulation is only a very partial one; and, secondly, that at times when large notes were presented for redemption by banks that needed gold for export, the bankers of the Government were willing to assist in meeting the demand. The system, indeed has never been very severely tried.

With regard to the United States, it is an undoubted fact that since the Federal Government resumed payment in specie—and it was more than twelve years after the war terminated that they did so—none of the evils foreshadowed in Canada as a consequence of Government issues have transpired. But it has to be said again, that the system of Government issues since the war has never been severely tested, and also that the Government, during the whole period, has been its own banker; always having stores of gold in possession, the product of over-sufficient taxes.

Moreover, whatever evils might be developed by a system under which the Government would be the sole issuer of circulating notes, such would, even under pressure, be much lessened when supplemented by a system of bank issues, as has been the case in the United States.

Had the agitation for a silver basis for Government issues been successful (and this momentous question, at one time, wholly depended on the uncertain issue of a Presidential election) it is certain that in such an event gold would have gone to a considerable premium, and the notes of the Government to a heavy discount. The trend of opinion, even in the United States, is in the direction of gradually withdrawing Government notes from actual circulation, and confining them to the issue of such *gold certificates* as are in use now in the larger centres, exchangeable for gold at the pleasure of the holder. But the idea of the whole issues of a country being that of the Government loses favor when examined in the light of events; and for this reason especially, if none others could be alleged, such issues cannot possibly correspond to the movements and requirements of commerce.

BANK NOTES SECURED BY GOVERNMENT BONDS.

The second theory is that which prevails in the United States under the National Bank Act. Under this system all bank issues are secured by Government bonds. They are absolutely restricted to a certain percentage of the capital of each issuing bank; the total amount cannot be increased except by the establishment of new banks, there being no in-

ducement for existing banks to increase their capital for the purpose of increased circulation.

Under this system, while the notes are perfectly secure so long as the bonds of the Government are good, they would depreciate if the bonds depreciated. Moreover, this system, like that of Government notes, has no correspondence with the inflowing and outflowing movements of commerce. The notes are never presented for redemption. They are far in excess of ordinary requirements at one time, and far below such requirements at another; the result being those heavy fluctuations in the rate of interest which have always distinguished the New York money market, and which bring about periodically severe financial crises.

The system, in its practical working, often leads to such a scarcity of currency in rural districts that business is almost reduced to a condition of barter. Moved by conditions such as these, strenuous endeavors have been made in the United States to bring about such modifications of the system as would ensure elasticity as well as security.

The third system prevailed in the United States before the establishment of the national bank system; but its defects were so great, and its abuses so constant, that it was abolished at the beginning of the Civil War without any resistance, and has never since sought to be rehabilitated.

ISSUES OF THE BANK OF ENGLAND.

The fourth is the system of the Bank of England. The notes of the Bank of England are legal tenders everywhere in England except at the counters of the Bank, where they are interchangeable for gold. For many generations, and up to the passing of Sir Robert Peel's Act, there was no statutory limit to the issue of the Bank of England notes. But there was a constant and never-ceasing restriction upon such issues by the necessity of redeeming them in gold. This restriction, however, ceased to operate during the period of the French Revolutionary War. Specie payments were then suspended and not resumed until some years after the war had closed.

At that time, as might be expected, gold went to a premium, which premium was disguised under the price per ounce of gold bullion; which was much higher when paid for in Bank of England notes than in gold coin. The discussions that took place in Parliament at this period with regard to the Bank of England issues and the price of gold display a most remarkable want of apprehension of the real bearings of the question on the part of eminent statesmen and members of Parliament. Although for years it was patent that a certain number of pounds of Bank of England notes would not buy nearly the same amount of commodities as the same amount of money in gold coin, it was strenuously denied by certain thinkers that the notes were at a discount. This might be deemed incredible, if the fact were not so well established. The premium, indeed, was never high; not more than fifteen or sixteen per cent., but guineas, which were the standard gold coin at the time, were perfectly

well known to be worth about that much beyond Bank of England notes.⁷¹

But although specie payments were suspended, the supply of gold and silver in the country was jealously watched, and constant spasms of uneasiness passed over it, when, under Mr. Pitt's policy, heavy drains of specie took place for shipment to the Continent to subsidize the governments fighting against Napoleon.

The amount of discussion that took place on the subject of Bank of England notes up to the time of the passing of Sir Robert Peel's Act was simply enormous; but there scarcely appears during the whole of it a proper appreciation of the undoubted fact that it was these *abnormal drains of gold* that brought about the unusual condition that prevailed. Gold was at a premium; that was a solid fact, deny it who would; but no one seems to have imagined what was the true cause of it, namely, that gold was in abnormal demand *for purposes entirely unconnected with the ordinary operations of trade or finance*. It is perfectly evident to us, who had the experience of gold rising to a premium during the American Civil War, that if there had been no war with Napoleon, gold would never have risen to a premium, and that Bank of England notes, and all other paper money with them, would never have fallen to a discount.

This was the truth, however, that had to be learned by experience; for when war ceased, and the movements of finance became natural, gold gradually accumulated, and it became possible to resume payments in specie. The convertibility of the note had once more become a patent fact long before the passing of Sir Robert Peel's Act which was meant to ensure it.

But after the great panic of 1825 (brought about by extravagant speculations in foreign stocks, and the numerous failures of private banks which ensued), an opinion began to prevail that all revulsions and panics were attributable to the over-issue of notes by country banks and by the Bank of England. That this idea was fallacious a long course of subsequent events demonstrated. But it took such deep root in the public mind that at length, under Sir Robert Peel, legislation was carried through Parliament with regard to it.

The object of Sir Robert Peel and the party that acted with him was to abolish all issues throughout the Kingdom except the issues of the Bank of England; and further that the issues of the Bank of England should be absolutely upon a gold basis; so that for every five-pound note issued by the Bank five sovereigns should be held to redeem it. The theory was expressed in a sort of formula, that bank notes should fluctuate exactly as gold would fluctuate in case there were no bank notes at all.

The framers of this theory and its upholders were not practical men,

⁷¹ Had the notes been issued by the Government, it is probable that they would have fallen to the same extent as consols, viz., to about fifty per cent. discount. Consols were at 52 in 1803, as may be seen by a recent issue of the London "Times."

and did not see that if this theory were thoroughly carried out it would be far better not to have any bank notes at all. Why should any corporation, or even any government, go to the expense of printing bank notes and incur the risk of paying forged ones, if for every note issued there must be a corresponding amount of gold in the till? In that case, why not pay out the gold at once? Why not have a simple gold currency, and save the risk and expense of paper notes?

Under such a theory there is no possible object to be gained by issuing paper money; and it would be obviously more profitable not to use it. It never seems to have dawned upon these theorists that the very foundation and *raison d'être* of paper money is to economize the use of gold.

Against this reasoning it may be urged that the bankers who were in favor of this currency measure were not mere theorists, but mostly London bankers of large experience, who thoroughly understood the subject they were treating of. This, however, is a mistake. London bankers they were, certainly, and men of the largest experience truly in some departments of banking. But it is a simple fact, that in the matter of the issue and redemption of circulation, they had no experience whatever. London bankers had given up issuing their own notes for nearly fifty years. Not one of them knew anything of the subject by his own practical experience; for not one of them in his lifetime had ever issued or redeemed a single note of his own.

In no department of finance is the maxim "*experientia docet*" more applicable than to that of circulation. Their answers, therefore, to the voluminous series of questions put to them were all the speculations of impractical theorists.

But even with these, when the idea was proposed to be applied to the Bank of England, and to require that the Bank should hold gold for every note it issued, an enormous, and what proved to be an insurmountable obstacle, loomed up. There was not enough gold in the country to meet this requirement. If even an attempt had been made to put it in operation, a tremendous disturbance of business and unparalled tightness of money would have ensued. In order to get such an amount of gold as that into the Bank of England, it would have been necessary to appeal to foreign countries; for it certainly could not have been spared in England. But it could not have been taken from foreign countries by force, it could only be got by selling abnormal amounts of consols abroad; or by making forced sales of British goods.

But even these resources would not have availed to a sufficient extent; for foreign governments would soon have put a stop to the drain of gold when they saw what was going on. It was an absolute necessity, therefore, for Sir Robert Peel to modify his theory to a large extent. The idea of compelling the Bank to hold gold for every note it issued was abandoned; and, as the Act finally passed, the governors were allowed to issue notes against the debt owing to them by the Government.

A considerable part of its issues, therefore, have never been represented by gold at all; and the currency theory broke down from the very moment it was attempted to carry it into practice.

But with regard to the remainder of its issues, Sir Robert thought he could contrive a machine which would work automatically and ensure the convertibility of the rest of the notes into gold under all circumstances; for under its operation the circulation would flow out and in exactly as if it were metallic.

This machine was the celebrated device of the separation of the issuing department of the Bank from the banking department.

All the notes of the Bank were to be issued by the issuing department, and only in exchange for gold. Gold was, of course, to be given for notes when demanded. The banking department could not get notes to do business with except by handing gold to the issuing department. Under this system it was concluded that there could be no possibility of an overissue, and that for the future there would be no more financial panics and revulsions.

But the Act went much further than to deal simply with the circulation of the Bank of England. There were large numbers of banks in England that regularly issued circulating notes. Some of these were private banks, some of them joint stock. It was intended by Sir Robert Peel to abolish the circulation of all these banks; for they, like the Bank of England, were blamed, though without reason, for overissuing, and thus assisting to bring about panics. But these banks of the country made such a strenuous resistance to the abolition of their notes that Sir Robert was compelled to consent to a modification of his scheme. After considerable discussion, which indicated on the part of Peel and his Government a singular want of apprehension of the real bearings of the subject (as contrasted with the views of practical men like the country bankers), a basis of restriction was agreed upon. The average circulation of the preceding three years was taken, which amount being duly registered, was fixed as the limit beyond which the country banks were not to extend their issues in future. Returns of the circulation of these banks were hereafter to be published in the "Gazette," and so they have been ever since, as well as in the London "Bankers' Magazine." It was provided also that in case a bank discontinued business, its circulating powers must lapse to the Bank of England.

The Scotch banks made even a more strenuous resistance than the country banks of England, and by their compactness and unity of action were able to bring strong pressure to bear upon the Government. It was finally agreed and embodied in law that the Scotch banks should continue to circulate bills as before to the extent of the average of the three preceding years; but with this important proviso, that they might circulate to any amount beyond that, provided they held gold to cover the extra amount. On this basis the issues of the banks in Scotland have continued ever since.

In Scotland, as in Canada, there is always an expansion of circulation during several months of the year. At that time it has been the custom of the Scotch banks to augment their stock of gold by the amount calculated to be required. Boxes of gold are regularly sent down from London to Scotland for the purpose; but it is a well known fact in banking circles that the boxes are, as a rule, never opened, and are returned to London exactly as they came when the period of expansion closes. It should be remembered, moreover, that the circulation of notes is very much larger in Scotland than in England owing to the fact that banks issue one pound notes.⁷⁵

All this legislation took place in the year 1844, or soon afterwards; and upon this basis the circulation of notes in England and Scotland has continued ever since. The notes of the Bank of England are issued to the extent of its holding of Government bonds and of its gold in possession. The English banks (those that circulate at all) issue up to the amount established by law. The Scotch banks to this latter amount with the addition of gold in hand to the excess.

But it is to be noted that the question of *securing* note issues seems to have been considered quite subordinate in importance to that of preventing what were thought to be overissues. As a matter of fact, the only notes of the Bank of England that are absolutely secured are those against which gold is held by the issue department. Government bonds are liable to heavy depreciation whenever war supervenes. For notes issued by English banks no special security is held at all. Note holders and depositors stand on precisely the same footing in respect of their claim upon the assets of the banks.

In the case of the Scotch banks there is even a more striking anomaly; for while supplies of gold are sent up to Scotland as a *basis* for extended issues, the gold is not constituted a special security for their extended issues. It forms a part of the general assets of the bank, and the depositors have just the same claim to it as these very notes.

But in fact the Act all throughout as respects Scotland is most inconsequent. To carry it to a logical conclusion, special issues of notes ought to have been directed for the excess; each of them stamped with the words "this note is secured by special deposit of gold." But the bankers of Scotland, shrewd men as they are, would never have consented to such discrimination against their ordinary issues.⁷⁶

But the important question remains, viz., has that Act, or has it not, fulfilled one great purpose of its enactment, namely, the placing of the

⁷⁵ One of the fancies of the currency theorists had been that what they called the overissue of the Bank of England had arisen from its power to issue one pound notes. They were, therefore, abolished, very unwisely. One of the most singular features of the long discussion that took place at that period was that scarcely a single reference was made to the example of Scotland.

⁷⁶ In making these observations it is not intended to cast the slightest doubt upon the security of bank notes in Great Britain. The notes are abundantly secure. But they are not secure by reason of the provisions of Sir Robert Peel's Act.

finances of country, as represented and controlled by banks, upon such a basis as would either prevent financial panics in the future, or, if they should recur, ensure that they should be of very limited extent?

A general idea prevailed that it would; which idea was founded upon a certain theory (which theory had the support of many eminent names) viz., that all panics being due to overtrading and speculation (as was universally acknowledged) and such overtrading and speculation being largely fostered, and helped (as they supposed) by the overissues of banks, if overissuing was stopped, overtrading and speculation must, perforce, be prevented or confined within such narrow limits that panics and revulsions would cease to trouble the land.

But alas for the vanity of human expectations! Within three years from the passing of the Act, a wave of panic swept over the country once more. And strange to say, it was found that the effect of the Act was to intensify the severity of the panic, and that the only recourse available to prevent the stoppage of the Bank of England itself, and with it a condition of universal bankruptcy, was to *suspend the operation of the Act!* When the alternative became pressing, shall the Bank Act be suspended, or shall the Bank of England itself suspend, theory gave way and common sense asserted itself. The Act *was* suspended by order in Council, and the wave of panic began to subside immediately.

Within a few months a normal condition of finance prevailed. But so inveterate is the force of tradition in English legislation that no thought seems to have arisen of revising the provisions of the Act. It came into force again; and again it was fondly hoped that peace and security would prevail. But the hopes of the theorists were again and again disappointed. After the lapse of ten years another period of overtrading and speculation set in, not in England only; and again it was evident that the Bank Act aggravated the pressure. The operation of the Act was accordingly suspended again; an experience that was repeated once more about twelve years afterwards.

All this demonstrated the truth of what the opponents of the Act contended, viz., that panics arise from other causes than overissues, that overissues, so-called, do not originate or help them, and that restricting issues will not prevent them; and that Sir Robert Peel's Act was nothing but a "fair weather" Act which would always have to be set aside when a storm arose. The fact is undoubted that after the Act was passed the course of commercial and financial affairs, and especially the waves of inflation and speculation, the fortunes and misfortunes of commercial houses and banks, proceeded exactly as they did before.

THE BASIS OF NOTE CIRCULATION IN CANADA.

The seventh of the systems of circulation named above is that which now prevails in Canada. It is the final result of the long process of what may be called financial evolution. The distinguishing features of this system are as follows:

First.—That the right to issue notes for circulation shall be confined to corporations that are registered under the provisions of the Banking Act.

Second.—That no such bank shall issue notes until it has a minimum of five hundred thousand capital subscribed, and of two hundred and fifty thousand paid up.

Third.—That the amount of such issues shall be kept within the limit of the paid up capital.

Fourth.—And that all such notes shall constitute, in case of failure of the bank issuing them, *a first lien upon all its assets, and upon the double liability of the stockholders* in addition.

For some years after its enactment, this important provision, which is the keynote and distinguishing feature of the note circulation of Canada, stood alone.

But to make assurance doubly sure, there was added to it after a time a system of contribution by each bank of a certain sum, proportioned to its circulation, to constitute a guarantee redemption fund, which fund is deposited with, and is at the disposal of the Government, for the redemption of the notes of any insolvent bank, should the provision previously named prove insufficient. And should this fund, under any conjunction of circumstances, prove also insufficient, provision is made for further contributions, until the redemption of every note is actually accomplished. The effect of this is very far-reaching; for it assures that every possible asset of every bank in the country, including the double liability of them all, is pledged for the redemption of the notes of any single insolvent bank. The whole of the banks of Canada are therefore pledged for one another in the matter of the ultimate redemption of their circulating notes, affording a security for the issues much beyond anything existing in the world.

It is, however, interesting to note that the provision by which notes are made a first lien in case of a bank's failure has invariably proved sufficient for the redemption of its whole issue. In no one instance has it been necessary to fall back upon the redemption fund; even though, as it has happened in more than one case during a number of years, the issuing bank has been grossly mismanaged. Even when in a certain bank, by means of fraud and concealment, a large issue was effected beyond the statutory requirement, the whole of them were redeemed out of the assets of the bank itself. Thus the security by first lien has stood the severest tests to which any system could be exposed. But with the redemption fund behind it, the *safety* of Canadian bank note issues is guarded beyond any possibility of failure.

HOW ELASTICITY IS SECURED.

Yet with all this there has been ample provision made for the important matter of *elasticity*. This feature of note issues is that which makes them correspond with the movements of commerce from season to season, and from year to year.

Commerce begins at the point where production is finished. When the harvest of an agricultural country like Canada is ready for sale, the merchant steps in with offers to purchase it. But experience has demonstrated that purchases of agricultural produce can only be carried out by the employment of current money. The movements of commerce in towns and cities can be and are almost wholly effected by checks, bills, and promissory notes. But for purchase of agricultural products from the producer in country districts nothing will answer but current money; coin for small change, and notes for larger transactions. When, therefore, the time of harvest comes round and purchases begin to be active, an immense demand for notes sets in; an immense outflow of notes takes place, which continues increasing until the larger part of the harvest passes into the hands of the merchant. This great annual outflow of money (the same that prevails also in the United States, in Scotland, and the agricultural parts of England) necessitates that there shall be powers of issue with the banks over and above the ordinary requirements. This power of extra issue in Scotland is provided by the holding of gold; not at all an economical process. It is provided in Canada by the united capital of the banks being always kept at a point far higher than that to which circulation ever rises at its highest level. Thus the power of the banks to provide for the largest outflow of notes is *economically* secured.

For a long period previous to the development of the great wheat-growing regions of the Northwest the circulation of the Canadian banks, as a whole, at its highest point year by year was far below their united capital; that is, far below their circulating power. But in the year 1902 so vast was the harvest of the Northwest that this highest point approached so near to the united capital, before the reflex wave set in, that the banks came to a general conclusion to increase their capital. Each one acted for itself, on its own judgment in the matter, and according to its special necessity, in order to provide for the expansion in future years. Capital, therefore, has been increased and the great outflow fully provided for. This will undoubtedly continue to be the case if necessity arises again.

Thus, then, there is always a reserve of circulating power in the country; for when the reflex wave sets in, notes return to the banks, and there accumulate until a vast store lies ready in the safes of the banks waiting for the great demand to set in for the movement of the crops in the autumn.

Let it be noted that by this method the utmost economy of finance has been secured; for the capital of the banks that has been paid up is available for commercial purposes as well as the store of notes that are based upon it when wanted. The notes that lie in the bankers' safes ready for the great outflow displace nothing.

Thus it is that the difficult problem of combining absolute safety with perfect elasticity has been solved. As to the *safety*, it has been shown to

be of an even higher degree than that of the issues of the Bank of England, or of the national banks of the United States; while its elasticity has been proved by the long course of experience to be perfect in its operation and that in a country where the pursuits of agriculture and forestry furnish a very large proportion of its annual production.⁷⁷

⁷⁷ It should be noted that a small part of the circulating notes of Canada (about ten per cent.) consists of the issue of the Government; and are of the denomination of one, two and four dollars. All the notes of the banks are of five dollars and upwards, corresponding in this respect exactly with the issues of the Scotch banks. The large notes of the Government of Canada are never in circulation at all. They are used solely by the banks between one another to settle balances due, and are expressly framed so as to have no value in the hands of the public.

As a final remark with regard to this system of note issues, it should be stated that a supervision of the whole system has been placed upon The Bankers' Association, especially created a corporation for the purpose. This association checks the unsigned notes received from the engravers by the several banks, together with the amount signed and taken into account as money from time to time; it checks the circulation account of each bank, and supervises their destruction when finally written off. The association in this matter acts as an agent for the Government, and ensures that the provisions of the law are complied with.

CHAPTER XXXV.

BANKING ACT OF CANADA.

VARIOUS CLAUSES OF THE ACT.—SHARES AND SHAREHOLDERS—DIRECTORS
—POWERS OF BANKS—DEPOSITS—RESERVES—STATEMENTS—INSOL-
VENCY—PENALTIES.

IT is desirable in a work like this that a statement of the leading features of the Act under which chartered banks do business in Canada should be made in such a form as to be understood by all classes of the community. For all classes are interested in banks, whether they desire it or not, inasmuch as the bulk of the notes circulating as money are issued by them. Whether a man has money to deposit or not, whether or not he needs money to carry on his business, he must in the nature of things, if he lives in Canada at all, sometimes have the notes of a Canadian bank in his possession and carry them at his risk. But the provisions of the Act are of interest to others besides Canadians, for it is universally admitted to be of high excellence.

The power to establish banks that can issue notes for circulation should reasonably be considered in relation to the general welfare of the community. That should be well understood; though, indeed, it is sometimes lost sight of. Banks do not receive powers for their own sake, but for the advantage of the people. It is the representatives of the people in Parliament that grant these powers; and when it is considered that no professional banker has ever sat in Parliament, and only few, comparatively, of the class of bank directors or presidents, it becomes apparent that bank legislation must have been considered in its relation to the country at large, and not simply in its bearing upon the interests of a particular class.

The Canadian Bank Act is the fruit of many years of discussion, during which it has been repeatedly considered by committees of the House of Commons and the Senate, who have had before them prominent members of the mercantile community, as well as professional bankers of experience. The Act itself is a consolidation of many separate acts formerly enacted by Canadian legislatures, under which charters to carry on the business of banking were conferred on certain corporations. The provisions of these early charters were largely framed upon those prevailing in the United States, with modifications suited to the circumstances of Canada.

But soon after the Provinces of Canada were confederated, the general subject of bank charters was taken up in Parliament with a view to

the establishment of a general Act for the whole Dominion. The existing charters were then thoroughly examined in committee and discussed clause by clause, the result being the passing of that one general Act under which banking has been carried on by all incorporated banks ever since 1871. At intervals of ten years (being the limit of the operation of the Act) its provisions have again been the subject of exhaustive discussion, and various amendments have been incorporated therein, all designed for the better protection of the public. It is worthy of note that the whole of these provisions for protection were suggested by the banks themselves; and very naturally so, for the banks are, at all times, by far the largest holders of each others' notes. They would therefore be the heaviest sufferers in case there were any failure of redemption.

VARIOUS CLAUSES OF THE ACT.

The Canadian Bank Act, as it was finally passed through both Houses of Parliament in 1901, consists of 104 clauses, the leading features of which may be summarized as follows:

- 1st.—Clauses which concern the *establishment* of a bank;
- 2d.—Clauses relating to the *stock* and *stockholders*;
- 3d.—Clauses relating to *directors*, their powers, qualifications, and responsibilities;
- 4th.—Clauses relating to the *issue and redemption* of notes for circulation;
- 5th.—Clauses with regard to the *lending of money*, discounting of bills and investing in securities; also as to *deposits and reserves*;
- 6th.—Clauses relating to the *statements* to be made by the banks to the Government;
- 7th.—Clauses relating to *insolvency*;
- 8th.—Clauses imposing *penalties*.

It is proposed in this chapter to give a brief synopsis of the Act under these heads.

OF THE ESTABLISHMENT AND INCORPORATION OF A BANK.

No bank can be established unless an Act of Parliament is obtained for the purpose, setting forth:

- (1) The proposed *name*;
- (2) The *capital* to be subscribed;
- (3) The *locality* of the head office;
- (4) The names of *provisional directors*.

To such a bank all the provisions of the Bank Act must apply.

The *subscribed capital* must *not* be less than \$500,000 and there must be \$250,000 *paid up* before business can be commenced.

No business shall be entered upon until a Certificate has been given

by the Treasury Board⁷⁸ that the provisions of the Act have been complied with, and this within one year of the passing of the Special Act of Incorporation.

The large requirement as to capital was in view of the power of issuing notes which the Act confers.

CLAUSES RELATING TO THE SHARES AND SHAREHOLDERS.

- (1) Shares must be uniformly of \$100.
- (2) At all meetings where voting takes place each share shall count for one vote.
- (3) Shareholders may vote by proxy. But no officer of the bank can be nominated as proxy, and all proxies must be renewed every two years.

(4) The names of shareholders must be registered in books kept for the purpose by the bank.

No transfer or assignment of shares is valid unless and until entered in such books. And the owner of the shares is the person whose name is on the register.

(5) For any debt to the bank incurred by a shareholder the bank shall have a lien on his shares.

(6) The shareholders shall meet annually and elect directors.

(7) They shall have power to pass by-laws touching the following matters: The day of the annual meeting; the record of proxies; the number of directors, their qualifications, and the mode of filling vacancies; the amount of discounts and loans that may be made to directors.

(8) Shareholders may authorize directors to establish guarantee and pension funds.

In addition to the foregoing are clauses relating to the following matters:

- (1) The payment of calls and penalty for neglect.
- (2) The transfer of shares, under a writ of execution.
- (3) The transfer of shares by will, or marriage, or bankruptcy.
- (4) Lists of transfers to be exhibited in the bank.
- (5) Persons holding shares as executors or trustees shall not be personally liable. But the estate or funds they administer shall be liable, provided always that such estate or trust shall have been expressly named. In default of this the executor or trustee shall be liable personally. The

⁷⁸ The Government Treasury Board exercises very important functions in the practical working of this Act. This Board was constituted by Act of the Dominion Parliament, Sect. 9, Cap. 28, Revised Statutes of Canada, as amended by 50 1 Victoria Cap. 13 and 1s, in substance as follows:

9. There shall be a Board to be called The Treasury Board consisting of the Minister of Finance, and any five of the Ministers belonging to the Queen's Privy Council for Canada, to be nominated from time to time by the Governor in Council.

Sect. 10 Cap. Revised Statutes: The Minister of Finance shall be the Chairman of the Treasury Board, and the Deputy of the Minister of Finance shall be the Secretary thereof, and through him the board shall communicate with any public department, or officer, or other person.

bank shall not be bound to see to the execution of any trust to which shares in its stock are subject.

In addition to the above provisions, the Bank Act contains the following relating to the capital as a whole:

(1) The capital may be increased or decreased by a by-law passed by shareholders at the annual meeting, or at a meeting called for the purpose, to any amount that may be determined, provided only that the capital paid up shall not be reduced below \$250,000.

(2) But no such addition or reduction shall take effect unless a certificate approving thereof has been issued by the Treasury Board.

(3) Increased stock shall first be offered to the shareholders *pro rata* at such a rate as may be fixed by the directors. But no rate shall be fixed which will make the premium, if any, on such new stock, exceed the percentage which the existing reserve fund bears to the existing capital of the bank.

CLAUSES RELATING TO DIRECTORS.

(1) Each director must hold stock paid up as follows, at least:

When the whole paid up capital is \$1,000,000 or less	\$3,000
From \$1,000,000 to \$3,000,000.....	4,000
Exceeding \$3,000,000	5,000

(2) A majority of the directors must be natural born or naturalized British subjects.

(3) The whole of the directors shall be elected annually.

(4) Vacancies during the bank year to be filled up according to provisions of by-laws.

(5) The capital and all the affairs and concerns of the bank to be managed by the directors.

(6) They shall have power to make by-laws as follows:

(a) As to the management of the business generally.

(b) As to the duties and conduct of officers.

(7) They may appoint such officers as they consider necessary, and remunerate them as they think fit. But they must allow no officer to enter on his duties until he has given satisfactory security.

(8) They shall submit to the shareholders at the annual meeting a full statement of the affairs and condition of the bank and also such special statement as may be called for in any by-law duly passed by the shareholders either in annual meeting or at a meeting called for the purpose.

(9) They shall declare dividends half-yearly or quarterly out of the profits of the bank. But such dividends shall not be such as to impair the paid-up capital. If any such dividend is declared the directors who concur therein shall be jointly and severally liable therefor.

(10) If any part of the capital is lost, the directors shall cause the same to be made good by the shareholders.

(11) They shall not declare any dividend beyond eight per cent. per annum unless the rest or reserve fund amounts to at least thirty per cent. of the paid-up capital.

CLAUSES RELATING TO THE ISSUE AND REDEMPTION OF NOTES FOR CIRCULATION.

(1) The bank may issue notes payable on demand to an amount not exceeding its paid-up capital.

(2) No note shall be of lesser amount than five dollars—and notes in excess shall be for some multiple of five dollars.

(3) *All such notes shall constitute a PREFERENTIAL LIEN on all the assets of the bank in the event of insolvency.*

(4) The payment of such notes is further secured by a special Redemption Fund, to which all banks shall contribute *pro rata* to the amount of their average circulation year by year. The said fund to be held by the Government under the name of "Bank Circulation Redemption Fund," and to be used for no other purpose than the redemption of the notes of any insolvent bank.

On the amount contributed by each bank, interest to be allowed by the Government. The total amount to be contributed by each bank to said fund shall be five per cent. on its average circulation. If payments are required to be made from the fund, they shall be made *pro rata* from the amount of each existing bank. Banks to make good the deficiency so caused, but only by payments not exceeding one per cent. per annum.

(5) In case of insolvency the notes of a suspended bank shall bear interest at the rate of five per cent. per annum, until notice has been given by the Government of its readiness to redeem them.

(6) No bank shall pledge or hypothecate its notes for a loan, and no loan so made shall be recoverable from the assets of the bank.

If the total circulation at any time exceeds the capital of the bank, the bank shall incur the following penalties, viz.: If the excess be not over \$1000 the penalty shall be the amount of the excess; if over \$1000 and not over \$20,000, the penalty to be \$1000; if over \$20,000 and not over \$100,000, a penalty of \$10,000; if the amount of the excess is over \$100,000 and not over \$200,000, a penalty of \$50,000; and if the amount of such excess is over \$200,000, a penalty of \$100,000.⁷⁹

⁷⁹ These penalties, and the latter one especially, will strike any one who is acquainted with the subject as being unreasonably large, seeing that the banks in Canada are issuing bills for the carrying on of the business of the country; that they are doing this day by day, at all their branches simultaneously; and that in an active condition of business, a bank with numerous branches may pay out to its customers the largest amount above named in a single day. These penalties suggest that an impression must have prevailed in Parliament that it would be detrimental to the public interest for a bank under any circumstance, and even for a day, to issue bills beyond the authorized amount; the truth being that the bills are so surrounded with safeguards that the public could not possibly suffer loss even if such issue were made. This has been demonstrated by experience.

At the revision of the bank charters which came into force in 1901 an additional safeguard was imposed by placing the whole supervision of the manufacture, distribution and issue of circulating notes of the banks under the supervision of the Bankers' Association, upon whom was also placed the responsibility of seeing that the destruction of cancelled notes was carried out in a proper manner.

The Association had previously been constituted an incorporated body, largely with a view to the exercise of these functions. The banks are thereby, as a body, constituted guardians of their mutual interests; than which nothing can be more reasonable, seeing that by the operation of the bank note redemption fund they are made ultimately liable for each others' issues.

POWERS WITH REGARD TO THE LENDING OF MONEY AND OTHER USES OF
THE FUNDS OF THE BANK, ALSO WITH REGARD
TO DEPOSITS AND RESERVES.

(1) The bank may lend money on bills of exchange, bonds, stocks, debentures and standing timber; may discount bills, and carry on such business as generally appertains to banking. But it shall not lend money on real estate or other immovable property, or ships. Yet it may take and hold any of these as additional security for debts already contracted.

(2) But it shall not hold real property more than seven years without permission of the Treasury Board, and then only for five years longer.

(3) The bank shall only lend money on merchandise when the same is pledged to it at the time the loan is made, and then only on a warehouse receipt, pledge, or bill of lading, which warehouse receipt or pledge in certain specified cases may be given by the owners of the goods.

It shall have the power to sell the goods after notice. Elaborate provisions are contained in the Act respecting these powers to loan on merchandise, all being designed to safeguard the rights of ordinary creditors.

(4) There are also provisions respecting property which the bank may acquire, whether movable or immovable, also as to its power of sale and realization.

(5) Any person making a false statement as to the goods pledged by a warehouse receipt or bill of lading, or who removes any goods pledged to a bank without its consent, or withholds them when demanded, is liable to imprisonment for a term not exceeding two years.

(6) For all advances made upon warehouse receipts or bills of lading the bank shall hold a preferential lien upon the goods prior to the claim of a non-paid vendor, if such there be. And if such vendor have a lien upon the goods at the time the advance was made, preference of the bank will still hold good, unless it had knowledge of the prior lien.

(7) The bank shall not be liable to penalty or forfeiture for usury; but it shall not be able to recover by action at law more than seven per cent. per annum.

DEPOSITS.

(8) The bank can receive deposits from any person and repay them to the same person; subject, however, to any law of any of the provinces of Canada imposing disability on certain classes of persons. Provided always that from such persons deposits may be received and repaid up to five hundred dollars.

The bank shall not be bound to see to the execution of any trust, whether expressed or implied, to which any deposit may be subject, or to the application of the money paid on such deposit.

If a deposit is made in the name of two persons the receipt of one shall be a sufficient discharge; or, if in the name of more than two, the receipt of the majority.

Money of a deceased depositor can only be drawn by production of a notarial copy of will, or copy of probate or letters of administration by a competent court.

RESERVES.

The bank shall always hold, as part of its reserve⁸⁰ of cash on hand, not less than *forty per cent.* thereof in the legal-tender notes of the Dominion; and the Finance Minister shall always deliver such notes in exchange for specie at the offices where legal-tender notes are redeemable, which places, in 1901, were Montreal, Toronto, Halifax, Ottawa, St. John, N. B., Winnipeg, Charlottetown and Victoria, B. C.

CLAUSES RELATING TO STATEMENTS TO THE GOVERNMENT.

These returns, which are sent monthly, and are summarized and published in the "Canada Gazette," were formerly much simpler than they were subsequently made, and in their present form are so detailed and elaborate that none but experts can properly appreciate them.

The points upon which information is desirable are of interest, partly to the general public, partly to bank stockholders and investors, and partly to other bankers and the Government.

The public are interested in knowing how the banks as a whole are progressing, as to the total amount of their circulation, deposits and discounts. All these are indices of the growth or otherwise of the business and wealth of the country at large. But the public have little or no interest in knowing the amount of overdue bills, or what amount of the banks' funds are invested in bonds and stocks, or in what particular form its reserve of cash is maintained.

But bank stockholders and other banks are interested in knowing what cash reserves or available resources the individual banks are keeping, also what amount of its funds each bank employs from time to time in

⁸⁰ But there is no provision as to the total amount of such reserve.

discounting bills and trade advances, and how much in stock exchange loans and debentures, also how much real estate a bank has acquired and whether any bank is borrowing from another bank.

In fact, bankers and stockholders are all interested in seeing whether any individual bank is stretching out its business beyond safe bounds, and thereby jeopardizing its position. As for the Government, its main concern is to see whether the bank's circulation is within the authorized limit, and whether in the cash reserve there is held the prescribed proportion of legal-tender notes.

It is also of interest that it should be generally known what are the total advances to directors, inasmuch as instances have occurred in banking where the position has been seriously jeopardized by such advances being allowed an undue amount.

The Monthly Return, as now prescribed by law, is as follows:

Capital authorized	\$.....
Capital subscribed .....	.....
Capital paid up.....	.....
Amount of Rest.....	.....
Rate per cent. of last dividend.....	.....

Liabilities.

(1) Notes in circulation.....	\$.....
(2) Balance due to Dominion Govt.....	.....
(3) Balance due to Provincial Govts.....	.....
(4) Deposits by the public in Canada payable on demand.....	.....
(5) Deposits in Canada payable after notice .....	.....
(6) Deposits not in Canada.....	.....
(7) Loans and rediscounts from other banks.....	.....
(8) Deposits by other banks in Canada, including balances due.....	.....
(9) Due to agencies of the bank, or to other banks in the United Kingdom.....	.....
(10) Due to agencies or banks elsewhere...	.....
(11) Other liabilities .....	.....
Total liabilities .....	.....

Assets.

(1) Specie	\$.....
(2) Dominion notes .....	.....
(3) Deposit to secure circulation.....	.....
(4) Notes and checks of other banks.....	.....
(5) Loans to other banks secured, including bills rediscounted .....	.....

(6) Due from other banks in Canada.....	.....
(7) Due from agencies of the bank or other banks in the United Kingdom.....	.....
(8) Balances due from agencies of the bank, or other banks or agencies elsewhere than in Canada or the United King- dom .....	.....
(9) Dominion and Provincial Government securities .....	.....
(10) Canadian municipal securities and British, foreign or colonial public se- curities other than Canadian.....	.....
(11) Railway and other bonds, debentures and stocks.....	.....
(12) Call and short loans on stocks and bonds in Canada.....	.....
(13) Call and short loans elsewhere than in Canada .....	.....
(14) Current loans in Canada.....	.....
(15) Current loans elsewhere than in Canada.	.....
(16) Loans to the Government of Canada...	.....
(17) Loans to Provincial Governments.....	.....
(18) Overdue debts .....	.....
(19) Real estate, other than bank premises..	.....
(20) Mortgages on real estate sold by the bank .....	.....
(21) Bank premises .....	.....
(22) Other assets, not already included.....	.....
<hr/>	
Total assets.....	\$.....
Aggregate amount of loans to directors and firms of which they are partners....	\$.....
Average amount of specie held during the month.....	.....
Average amount of Dominion notes held dur- ing the month.....	.....
Greatest amount of notes in circulation at any time during the month.....	.....

This return, it will be seen, is in remarkable detail, and it affords to bankers a certain amount of general information as to what their neighbors are doing. This, of course, is of much interest to them. But it is questionable whether much of the information might not be summarized with advantage, so far as the Government and the public are concerned. And it is certainly questionable whether the extraordinary detail of these returns operates as a check upon illegitimate banking. Such a check

may have been intended, but experience does not bear out the supposition that these returns are effectual for that purpose.

CLAUSES RELATING TO INSOLVENCY.

The closing of the doors of a bank and suspension of payment do not *ipso facto* operate to place a bank in insolvency.

Suspension requires to be continued for *ninety days consecutively*, or for ninety in all, if at intervals during twelve months.

But suspension for that period constitutes the bank insolvent and operates as a forfeiture of its charter; which charter, however, is continued for the purpose of winding up the bank.

It is, however, provided that if any bank suspends payment, the Bankers' Association shall appoint a curator to supervise the affairs of the bank; and it shall be his duty to make, in the first place, all needful arrangements for the payment of the notes of the bank, and then for protecting the rights and interests of the creditors generally. The curator to hold office until a liquidator is appointed to wind up the bank, or until it resumes business.

If, after suspension for ninety days, no proceedings are taken with a view to the winding up of the bank by the appointment of a liquidator or otherwise, the directors shall make calls upon the stockholders for such sums as they may deem needed to pay all the liabilities of the bank. Stockholders who have transferred their shares within sixty days of the suspension of the bank shall be liable to pay the foregoing calls as if they held them at the time of suspension. But they shall have recourse against those by whom the shares are actually held at the time. It is also provided that no statute of limitations or prescription shall have any application to a bank. In all other respects the procedure in the case of the insolvency of a bank is the same as that in the case of an ordinary company or mercantile firm.

PENALTIES.

The act imposes sundry penalties for violation of its provisions:⁸¹

(1) For neglecting to pay calls when due, ten per cent.; or the directors may declare such shares to be forfeited.

⁸¹ The clause that imposes a penalty of \$500 for each violation of the Act comprised within sections from 64 to 78 inclusive, cannot but strike an observer as singularly liable to abuse at the hands of an arbitrary administration. Those sections are not only voluminous and complicated, covering a great number of actions of a totally different character, but some of them are notoriously difficult to interpret, and are open to different constructions as they apply to the numerous and varied circumstances of daily banking business. Other penalties of the Act are for single specific offenses respecting which there can be no dispute; such, for example, as not holding a proper quantity of Dominion notes, or for an over-issue of notes, or not sending in returns within the specified time.

All these are definite acts and easily provable. But what shall be said of a clause that sweeps within a reiterated series of penalties a large number of complicated provisions relating to advancing money in aid of the building of ships, or acquiring, holding, and releasing warehouse receipts, pledges, and hy-

(2) For holding less than forty per cent. of cash reserves in Dominion notes, five hundred dollars per day.

(3) For an over-issue of circulating notes. (These penalties have already been referred to.)

(4) For violating any of the provisions of the Act relating to the securities on which money can be lent, or to real property acquired, or mortgages thereon, for each violation a penalty of five hundred dollars.

(5) For not sending monthly returns in proper time, fifty dollars per day.

(6) For not sending any special returns required by the Minister of Finance, five hundred dollars per day.

(7) For not sending list of shareholders annually at the time appointed, fifty dollars per day.

(8) For not sending list of unpaid dividends, unpaid balances and unpaid drafts, fifty dollars per day.

The two clauses which follow impose penalties upon directors or officers of the bank.

(9) For declaring any dividend which impairs the paid-up capital of the bank; all directors who knowingly concur therein shall be jointly and severally liable therefor as a debt due to the bank.

(10) For giving a fraudulent or unfair preference to a creditor, or for wilfully making any false return or statement of the affairs of the bank, the parties who have prepared or signed such statement shall be liable to imprisonment for a term not exceeding five years, and shall

pothees of variously described articles of merchandise, respecting the interpretation of which lawyers and judges have held and are likely to continue to hold different opinions.

It is to be noted that the actions hedged round by such extraordinary provisos and penalties are such as must occur repeatedly in any single day's business, when the movement of the crops is actually going on. Yet the penalty is for each separate act, which, it has been contended, means the payment of each check. The whole spirit of these clauses would imply that the lending of money for the purchase of agricultural produce is a very suspicious business, fraught with danger to the community, and to be jealously watched by the Government. It may be said, and probably has been said, and will be again, that a banker can easily keep himself safe by not lending money under these clauses; in fact, he need not lend money to move the crops at all unless he pleases. This is easy to say; but in so saying it is forgotten that the warehousing clauses of the Bank Act were devised by Parliament for the very purpose of facilitating these operations of commerce which, more than any others, promote the prosperity of the country; viz., the marketing, transporting, and exporting of its crops and productions. The "moving of the crops" as it is technically termed, including the productions of the forest, sea, and mine, is universally recognized as the foundation of all the other industries of Canada.

Now, if the clauses of the Bank Act that were expressly framed to enable the banks to promote this are so hedged about by provisos and penalties, that bankers cannot act upon them without great risk of being heavily fined, it is obvious that both clauses and penalties need reconsideration. There is the more reason for the latter in the fact that all the dubious clauses relate to the security for loans of money, a violation of which carries its own penalty in the forfeiture of the security.

This forfeiture can be enforced by ordinary process of law, and renders any special penalty unnecessary.

be responsible for all damages sustained by any person in consequence thereof.

The above penalties are all applicable to a bank in its corporate capacity, or to one or more of the officers. But the Act provides for penalties applicable to offences by other persons, thus:

(1) For issuing any bill or note intended to circulate as money four hundred dollars.

(2) For using the title of bank, or banking company (or the like corporate words), without authority from this Act, a fine of one thousand dollars, or imprisonment for a term of not over five years.

(3) For defacing any Dominion or Provincial note, a penalty not exceeding twenty dollars.

Such is the Banking Act of Canada, which, though not without defects, is nevertheless by general admission an admirable compendium of what is necessary and desirable for a banking corporation to be permitted to do, or to be prohibited from doing.

The Act aims to include within one statute all necessary legislation on the subject except that relating to promissory notes and bills of exchange, which are dealt with in a separate act. The banking legislation of Canada is the final issue of much consideration from many quarters and much discussion of opposing views and theories during a long series of years. It is, in its main features, and in much of its detail, especially adapted to the circumstances of Canada as a country of varied productions, various lines of business and manufacture, and of a high stage of industrial development.

But some of its clauses bear evidence of the prevalence of theoretical views as opposed to those that are practical, and have doubtless been insisted upon by parliamentary or governmental *doctrinaires*, in opposition to those who have practical knowledge.

CHAPTER XXXVI.

FINANCIAL PANICS AND REVULSIONS IN ENGLAND AND THE UNITED STATES.

PANIC OF 1825 IN ENGLAND—REVULSION OF 1838-39—CRISIS OF 1847—FINANCIAL COLLAPSE OF 1857—PANIC OF 1866 IN ENGLAND—LESSONS TO BE LEARNED.

FEW events are at the same time more disturbing to read of and yet more instructive than the narrative of the panics and revulsions which during the last century troubled the financial world. They are worthy of careful study for two reasons: On the one hand to restrain the ardent and sanguine-tempered from proceeding far in a course which will inevitably end in disaster; and on the other to prevent the men who are pessimistically inclined from mistaking passing clouds of trouble for such symptoms of disturbance as usher in a financial storm. It is by carefully noting these events of the past that a man of financial responsibility can steer a safe course in the present and avoid either rashness or pessimism.

In this chapter a brief summary will be given of several of the more important of these reverses, consideration of which will well repay perusal even now. For if we go back as far as the year 1825, we shall find ourselves in a condition of things remarkably like what has prevailed in later times; and the warning lessons of this panic will be found pertinent at the present day.

Drawing somewhat on the account given of the events preceeding and accompanying these panics by authorities like Gilbert and McLeod, and to some extent from my own knowledge, we will begin with a notable panic in England.

THE PANIC OF 1825 IN ENGLAND.

After several years of prosperity, clearly indicated by the amplitude of the stock of bullion in the Bank of England, the Government determined upon the reduction of the interest upon nearly a quarter of the national debt. This vast operation had a very considerable influence in curtailing the incomes of many persons who could ill afford it, and prepared them to look out for more profitable investments. Just at this period the long contest between Spain and her South American Colonies had now finally terminated in favor of the Colonies. The recognition of the independence of the South American States and Mexico apparently opened out a boundless field for the consumption of British manufactures, and a spirit of speculation rapidly rose, influenced by visions of countless wealth to be extracted from gold and silver mines. Immense schemes were formed for working these mines with British capital.

Besides this, the long struggle for independence had inspired the

British people with sympathy for the juvenile republics politically considered, and when they wanted to borrow money to support their credit, British people were only too eager to lend it. It is alleged that in these two ways £150,000,000 of British capital was placed in Mexico and South America, much of which was lost. The speculation in mines speedily developed into a mania, and let it be noted that those were all in a trans-Atlantic country, leading to immense exports, the *greater part of which were never paid for*. In all these speculations only a small installment, seldom exceeding five per cent., was paid at first, so that a very moderate rise in the price of the shares produced a large profit on the sum actually invested. All the gambling propensities of human nature were therefore urged into action, and crowds of individuals of every description hastened to venture some portion of their property (by way of margin) in schemes of which scarcely anything was known except the name. As a natural consequence *the prices of many other commodities doubled and tripled*.

This is a most significant point, for it is a fact that there is never so much buoyancy, and such mutual congratulation, as in the period before the bursting of financial storms.

The speculative fever was at its height in the first months of 1825. But the enormous absorption of capital that had taken place had made money scarce and dear. And that ominous symptom, the steady decline in the bullion in the Bank of England, had begun to be apparent. In January, 1824, it amounted to £14,200,000. In July to £11,800,000. By January, 1825, it had fallen to £9,500,000. Yet even the Bank of England itself failed to read the signs of the times, and went on discounting as usual. It was not until the bullion was reduced to £6,500,000 that it took measures to stop the drain by curtailing its discounts. But it was too late. That measure ought to have been taken six months earlier. As it was, enormous commitments and engagements, made in the time of inflation, had to be carried out. The drain, therefore, went on. In July the bank had only £4,170,000 of bullion wherewith to meet all the engagements to note-holders and depositors. This was reduced to £2,150,000 in October and to £3,012,000 in November. Then the storm burst.

There can be no wonder that a panic prevailed, for the drain had gone on until there was actually less than £1,500,000 of specie left in the Bank. A few days more, and the Bank itself must have suspended payments in specie. Gold would then have gone to a premium, as it had done during the wars with Napoleon, and a universal dislocation of business and general insolvency have ensued.

The one marked feature of this crisis was the large number of *Banking* failures that it brought about. First came the stoppage of a great bank in Plymouth. Then followed a greater collapse still, that of Wentworth & Co. of Yorkshire. The London banking house of Pole & Co. was also forced to succumb. The Bank of England had lent them £300,000, but this was of no avail. Pole & Co. were agents of no less than forty country banks, and their fall was the signal for a general run upon the London banks, several more of which gave way, spreading uni-

versal consternation amongst the country bankers, sixty-three more of which succumbed. Shortly after the cessation of the panic gold began to flow in from abroad, and confidence to be restored.

The panic ceased when it became evident that the Government would stand by the Bank of England, and the Bank by the country.

But the events which had taken place had important consequences, one of which was the stopping of all further issues of one-pound notes by the Bank of England; and another the beginning of the agitation for the abolition of its banking monopoly, and the establishment of Joint-Stock Banks. The first measure was founded upon a delusion, as might have been seen had men cast their eyes towards Scotland. There had been no panic and revulsion there, nor any circumstances leading up to it. Yet one-pound notes were the universal medium of issue, as they have been ever since. And although there have been two failures of immense magnitude amongst Scotch banks since then, in neither case was the disaster attributable to the note issues. In both cases, in the sphere where one-pound notes are most in evidence as the medium of business, that is, in the country branches, the business of both banks was in a sound condition.

During the debate on this subject in Parliament, no less a person than Sir Robert Peel expressed the opinion that if the Scotch system of banking had prevailed in England in 1793 and in recent years, no such calamities would have happened as those they were discussing. He seems, however, to have entirely forgotten this in subsequent years.

PANIC OF 1838-39.

The revulsion of 1838-39 may be passed by briefly, as it presented features in no essential respect differing from those that preceded it, and those which followed. It took its rise largely from the enormous railway developments of the period, leading into the *passing of millions of floating assets into a fixed form*, yielding no remuneration for many years. It was preceded as usual by a steady and continuous drain of gold. In December, 1838, the Bank held of bullion £9,790,000. In May, 1839, this was reduced to £4,117,000; in July to £2,980,000, and in September to £2,400,000. Yet it can scarcely be credited that up to May the Bank went on making advances as if matters were in a normal condition.

This revulsion, however, I pass by. Those that succeeded are more interesting to us, for two reasons: They all affected both the United States and Canada, and they are more near the events of our own times, and therefore carry more pregnant lessons.

THE CRISIS OF 1847.

Though this crisis acted with great severity on the United States and Canada its chief force was felt in England. So far as Canada was concerned, it had been preceded by the adoption of a trade policy in England, which had, for a time, ruinous effects on Canada. Sufficient opportunity for preparation had not been given. It was largely owing

to this that the crisis of 1847 was so severely felt. Montreal was prostrate under the heavy blows inflicted on her prosperity. Banks made heavy losses. The Bank of Montreal lost all its reserved fund. All Canada was more or less affected, but it was in the commercial capital that closed warehouses and quiet wharves testified for years how severe had been the blow.

The panic of 1847 came about in England in this wise. During the years 1845-46, a perfect fever of Railway construction had been developed all over Great Britain, and the amount of money drawn for this purpose from the floating funds of banks and the community gradually mounted up to enormous sums. Railways were supposed to have within themselves a certain guarantee of inexhaustible future wealth, and Parliament was besieged with applications for new schemes. Prices of shares were continually on the rise, and for a time everything was on the ascendant. Mercantile business became inflated, for everybody found themselves rapidly getting rich. And many bankers were carried away with the excitement and fostered it by free discounting. A high style of living was entered upon by many people, and establishments created; a perfect type of which was found in the career of George Hudson, the great railway promoter and operator of those times. A few years before he had been pursuing a quiet business as a draper in the city of York, and living in a style corresponding to the position of a shopkeeper. But in 1846 we find him a railway magnate, occupying a splendid mansion overlooking Hyde Park in London, and entertaining the nobility of the land. All this was based upon the rise in railway shares and was kept afloat by masses of bills incautiously discounted by bankers and discount houses. All commercial transactions became infected with unsoundness and an extraordinary number of persons became entangled in obligations of which there was no prospect of their ever working free.

These were the conditions precedent to the great collapse; and I know they are correctly described, for I was in England at the time and an eye-witness of them all.

The first sign of the break-up occurred in the grain trade. In the month of August, 1847, great houses in this line of business began to fail. The first had liabilities of £500,000. Other firms followed; some failing for £300,000, some for £400,000. One failure resulted in another, and by the end of the third week the failures amounted to £3,020,000. The circle of disaster now widened and spread through all branches of business, until the total amount within a few months reached the enormous sum of £15,000,000, a sum fully equivalent to twice as much at the present day.

So far with regard to merchants. Then came the turn of the bill discounters and the banks. It was in September that the first note was struck by the failure of a large firm of bill discounters in London. Early in October the Royal Bank of Liverpool succumbed, amidst tremendous excitement. The failure of the Royal Bank was followed by the stoppage of the North and South Wales Bank. (This Bank resumed business, and is in high credit now.) The Liverpool Banking Company and the Union Bank of Newcastle then followed. Heavy runs

also took place on other banks, leading to failures in Manchester and in the West of England.

The Bank of England had rendered assistance during this period of alarm, notwithstanding the fact that its supply of bullion was rapidly being drained off. But the time was coming when it was necessary for the great Bank to look after itself. By the operation of the Act of 1844, a large part of the gold owned by the Bank was locked up in the issue department, as security for its notes, and was utterly unavailable for the claims of depositors and discounting customers. Ordinarily the Bank had abundant resources in bullion for all banking purposes, but, for more than a year back its bullion had been steadily decreasing. By the end of October it had been reduced to such an amount as to render it impossible to go on with its business. The bank could not even increase the issue of its own notes; it could not obtain them without paying in gold to the issue department, while for that department to issue them except on gold paid in would have been to break the law. Yet something must be done, or the Bank would stop payment. The Bank therefore had no resource but to appeal to the Government, and at length the force of circumstances compelled the Government to suspend the Act, and allow notes to be issued (they were legal tender, let it be borne in mind) without a covering of gold.

When the Government intervened, the panic passed away as had that of 1825 for the same reason. Business gradually resumed its ordinary course. But one of the most important consequences of the revulsion was to dissipate the idea that the act of 1844 could be relied on to prevent panics. The whole banking interest of the country, with few exceptions, had shared this delusive idea, and conducted their operations as if, since the passing of the Act, nothing was to be feared from imprudent banking, so long as the Bank of England stood. Bankers in England, even at that late date, had yet to learn that no legislative enactments can prevent continued violation of sound banking rules from being followed by disaster.

But other revulsions were to happen before a right understanding was arrived at, with regard to bank issues; and nothing is more remarkable than the misconception that pervaded even the mercantile and banking world of London with regard to this matter.

THE REVULSION OF 1857.

The events of this terrible financial revulsion came very close home to us on this side of the Atlantic, for, as some now living can remember, it swept like a tornado over the United States, and passed as a deadly blight all over the western portions of Canada.

Respecting England, there had been a heavy war expenditure in the Crimea, and as is often the case, a development of extravagant living attending it. A general spirit of buoyancy pervaded the community.

The Bank rate in August, 1856, was seven and eight per cent., a very high rate for England. An enormous amount of accommodation bills was set afloat in the community, and even the Governor of the Bank of England observed not long before the panic that things were hopeful and satisfactory. Yet from June, 1855, to December the stock of bullion

had gone down from £17,500,000 to £10,300,000; and there were signs of the times which sage financiers were carefully noting from day to day, and from week to week. The bullion in the Bank was only of moderate amount at best. During the period of extravagant living, there had been heavy importations of Eastern luxuries as well as an immense increase in ordinary importations from thence. These caused an abnormal accumulation of debt to that quarter, which could only be satisfied by shipments of specie. Accordingly, a Million pounds sterling was taken from the reserve of the Bank for shipment to the East. This was the beginning of the diminution in the Bank's stock of banking specie which went on until it was nearly all exhausted.

The great centre and source of disturbance, however, was in the United States.

After several good harvests and immense railroad development, largely financed on money borrowed from abroad, but partly on discounts at home, the usual era of extravagant expenditures set in. Following on this came the bad harvest which prevailed over the United States and Canada. The first note of distress, as I well remember, came from Ohio.

On August 25th the Ohio Life and Trust Company with deposits to the amount of \$6,000,000 stopped payment. This created a panic which rapidly spread throughout the Union. Discount rose to eighteen and twenty-four per cent. The extraordinary number of 150 banks in Pennsylvania, Maryland, Virginia and Rhode Island stopped payment. On October 13th a general run took place on the New York banks. Eighteen immediately stopped; and soon afterwards, out of sixty-three, only one maintained payment in specie.

A perfect avalanche of mercantile failures resulted from these stoppages and other causes and for months together several columns of the New York papers were occupied by lists of firms that had become bankrupt. Nothing like it had been known before; nothing like it has transpired since. We used to read these lists in Canada with very serious uneasiness, for at that time the old Reciprocity Treaty was in force, and our exports of Lumber and Grain caused large masses of bills to be drawn on United States firms. Whether these bills would be paid or not, was a matter of daily anxiety to Canadian exporters and their bankers.

The depression continued for two or three years, during which there was the severest weeding out of weak firms and weak banks that had ever been known; accompanied also by an exercise of personal and domestic economy so general as to produce a heavy diminution of imports, and a restoration of sound methods of giving and taking credit.

Passing back to England, the course of affairs may be briefly summarized as follows:

(1) The events in the United States first reacted upon Liverpool and Glasgow, then, as ever since, very closely connected with American firms. The Western Bank of Scotland failed; naturally enough, for it had been scandalously mismanaged. The Borough Bank of Liverpool also failed.

The City of Glasgow Bank suspended temporarily, but was able to

resume; the most remarkable thing about which is that its Directors were blind to this sharp lesson, and twenty years afterwards perpetrated the most astounding series of follies and frauds ever heard of in the history of banking.

(2) London was first disturbed by the tremendous depreciation in American securities of all kinds, but particularly Railways. These had been carrying on an extravagant style of management, for years; and paying dividends,—practically,—out of capital. Some eighty millions sterling of American railroad stock was held in England, and the effect of depreciation was far-reaching.

(3) In October failures began to increase in the country. Alarm spread in all directions when it was announced that the great mercantile house of Dennistoun and Co. of London had succumbed, followed a few days after by the failure (for the second time) of one of the largest discounting houses of London, Sanderson & Co.

All this time the bullion in the banking department of the Bank of England was draining off, and it went down until on November 12 the amount of gold held by the banking department was only £358,000. The whole of the remainder was locked up in the issue department and held for the notes. Yet, holding only this sum of less than £100,000 against the mass of its deposits, the Bank was struggling on from hour to hour. The London banks alone, at that date, had balances in the Bank of England of more than five millions, and could have closed it up at once had they pleased. Of course, it would have been madness to do it. But they themselves might have been compelled any day by the claims of their country correspondents to draw out the whole of the gold in the vaults of the Bank.* It is well known that this panic was stopped, by the suspension of the Act of 1814; the second demonstration of the unwisdom of the idea that the Act would bring about a wiser course of financing and prevent panics altogether.

Turning now to Canada, we are confronted with a condition and development of a high degree of instructive interest. (The description which follows is from my own knowledge.) During 1855 and 1856, the country had enjoyed a period of remarkable development, in two ways; the harvest of both years had been singularly abundant; and the price, owing to the Crimean War, phenomenally high; wheat having been worth from a dollar and a half to two dollars a bushel. The total value of each of those harvests was equal to three or four average ones. The consequence was a phenomenal expenditure upon land, in the shape of new clearings, buildings, barns and improvements. This was accompanied by a heavy rise in the nominal value of lands, both cleared and wild. Naturally following upon this, was an extraordinary impetus to the trade of the towns, and a heavy rise in the value of town, city and village property.

Along with this came the immense expenditures connected with the building of the Grand Trunk Railway. Never had such an outpouring of money been known in the quiet country towns and cities of Western Can-

* One of the most noticeable things in the management of the Bank of England at that time is an apparent obliviousness to the claims of depositors. If any question arose, it was always this—Have you enough money to go on discounting? never—Have you enough to pay demands of depositors?

ada; and never was there such extravagant expenditure and speculation. Champagne flowed like water, and a style of dress and manners was introduced that the country had never before known.

Land speculation gradually increased until it became rampant. It took two distinct forms. The first related to vacant lots within towns and cities, and their suburbs. The outskirts of every little town were surveyed, to a considerable distance, and laid out into streets, and building lots; all with the idea of an immense influx of population and business. The village of one thousand was to become a town of ten thousand; the town of five thousand, a city of fifty thousand,—while Toronto, the seat of Government, was to become a city rivalling New York. A similar impetus was given to Farm property. As to property in wild lands, its owners could set no limit to what they considered its value,—for at almost every cross-roads in the country, often in the bush itself, surveys had been made for a future town or city. In Toronto nightly sales were held of lands where these future cities were to be located; the auction room being decorated with plans and pictures of future Town Halls, Banks, and mercantile stores and offices. As to farms adjacent to cities, whose area had been surveyed for streets and lots, the speculation in these was simply fabulous. The farmer was tempted to sell the whole to some speculator at a price that yielded him a little fortune. But the speculator on dividing the farm, would get a thousand lots out of it, each of which, he was willing to sell for a hundred dollars. These sales were made on credit spread over ten years of time; mortgages and promissory notes being given to represent the debt. But the purchasers of the lots did not want them; they sold them again; a fresh crop of mortgages and promissory notes being the result at higher figures until, as an eye-witness has described it:

“The simple hundred acres has been so manipulated, such conveyances and promissory notes have clustered round it, that the very cost of conveyancing has become more than the real value of the land.

“Carry this over a wide area, apply it to every town, city and village in the Western Province of Canada; conceive, too, of all business infected with the same inflation, of an enormous mass of dealing on credit in all manner of extravagances; of people here and there fancying themselves so rich as to make preparation for retiring to England and living on their estates—and we have a perfect picture of the Canada of 1855, 1856 and part of 1857.”

This picture, let us say, would be just as true of considerable portions of the *Western States* at the same period.

But let us pass on and note the turn in the tide:

“The harvest of 1857 was a bad one. We had little to export, yet enormous importations had to be paid for. Money became tight. Banks grew suspicious. Lets ceased to be in demand, an unusual thing, and men could hardly realize it. Men clung with tenacity to the idea that no matter what might transpire in mercantile circles, land must go on increasing in value. But the logic of facts at length dispelled the delusion.

“There was a gradual bearing down through the latter end of 1857, all of 1858, 1859 and 1860. During these years failures became more and more numerous. Men that had fought against adversity bravely in 1857 and 1858 were compelled to succumb in 1859 or 1860, after carry-

ing for years a load of obligations. There were, indeed, instances where failure ultimately overtook men so late as 1863 and 1864, the seeds of which were sown in the revulsion of 1857."⁸³

"If a man had been away from the country during the interval and returned, he could not fail to be struck with an extraordinary change. Numerous shops are closed. Numbers of empty houses are to be seen. Newspapers are full of notices of sales of lands for taxes. If he meets a friend of former years, whom he knew as a successful speculator, and begins to talk, as before, of lands and lots, he finds it to be a tabooed subject. His old friend has gone through terrible experiences. He has *sued* and *been sued*; and has found that while liabilities are tangible realities, assets in the shape of instalments on land purchases, were a mockery and delusion.

"His mortgages, if he foreclosed, left him only the owner of thousands of acres of bush and swamp; unsaleable, yet liable to be taxed. He had brought numbers of suits, but got practically nothing. But others had sued *him*; and taken his house, his furniture, his bank stock, and all he had in the world. Worse than this, he had involved his friends and relatives in the same misfortune, and had alienated, or made enemies of them all. They had endorsed his paper, had been sued in their turn, had vainly endeavored to put off the evil day, but finally had to succumb to the all-devouring *fi fa* of the sheriff, and the hammer of the auctioneer."

This graphic description of the revulsion of 1857, in Canada, and the inflation that preceded it, has been quoted for the reason that both are typical. What took place in Ontario took place in Ohio and Illinois.⁸⁴ And what took place in 1856 to 1860, has been repeated more than once in the developments of subsequent years. Every feature of 1857 to 1859, was repeated in the great boom that swept over Manitoba, in 1881 and its collapse in subsequent years; and on a more limited scale several times since in some of our principal cities. The only difference between these and 1857, was that the area of disturbance was confined to one city or district.

PANIC OF 1866 IN ENGLAND.

It might be supposed that after such severe experiences a whole generation, at least, would pass before another such period could transpire. Yet, far-sighted men, within a year or two after were anticipating that

⁸³ It was during this time of reaction that the Bank of Upper Canada, whose failure is referred to elsewhere, was forced to close its doors. The bank had been more closely connected with the landed class of the community than any other institution in the country, and a large portion of its discounts consisted of their obligations, or the obligations of those connected with, or dependent upon them. To some extent the same might be said of one or two small institutions with headquarters in Toronto, which disappeared about the same time.

⁸⁴ The revulsion of 1857 swept with peculiar severity over Illinois and the West, and a curious illustration of this occurred in Chicago. Numerous failures there resulted in numbers of mercantile warehouses being left empty. The owners of these were glad to have them occupied, even if no rent was paid. The tenant of one of these called on the owner one day and told him he was going to leave the store. "This is rather unreasonable," said the owner, "as I let you have this good warehouse for nothing." "That is very true," replied the tenant, "but I can get a much better one than yours for nothing!"

the horde of speculators who hover about financial centres would find some means or other of bringing about another era of inflation. But it was not until 1863-64 that they found their opportunity. The law of limited liability had just been passed (a highly beneficial law when used properly), and under its operation immensely increased opportunities arose for the floating of new companies. Up to March, 1864, two hundred and sixty-three companies had been formed with a nominal capital of seventy-eight millions sterling. In connection with these, vast sums in bills were set afloat and discounted by financial houses like Overend & Co. Yet in June, 1865, the rate of discount was only three per cent. Then the great operations began which culminated in the panic of the following year. The Finance and Discount Companies did an enormous business in loans and bills, finding thus the means for the promotion of credit enterprises by which fabulous sums of money were locked up, and much of it lost.

Take the following sample of the operations then indulged in: The London Credit Company has a capital of a million and deposits of two millions. With such means at command, it takes five thousand shares in the Financial Association of Paris. (which Association has operations going on in Egypt, Turkey, and Russia); it loans a large sum to a company to build docks at Marseilles; undertakes the construction of a railway on the Danube, and finally has to take the railway itself in payment; puts £200,000 into the building of a public hall in Milan; undertakes works of drainage in Belgium; contracts for the improvement of docks on the Thames; subscribes for 1,000 shares in the Bank of China and Japan; and takes half a million of a loan to the Sultan of Turkey. Another company of a similar kind goes more into Central and South American securities, and has money invested in Honduras, Guatemala, Venezuela, Chili, and Brazil. Another fancies Shipping and Steamship lines. And here it was that the great house of Overend, Gurney & Co. met with the losses that ruined them. By forty years' patient attention to business, a capital of many millions had been accumulated by the house. They were Quakers of the very *creme de la creme* of the financial world, and their credit was unlimited. Their business was as large as that of all the banks of Canada put together. Yet in two or three years, under the enterprising management of younger members of the house, their immense fortune was dissipated in worthless loans.⁸⁵ There never was such a sensation as that which shook the financial world on the announcement of the failure of Overend & Co., Limited. Their liabilities were over £10,000,000. The ramifications of their business extended all over the world, and the day the failure was made known will long be remembered in London as Black Friday. After this, bank after bank, and company after company, came toppling down. A tremendous drain took place on the bullion of the Bank of England, and had it continued for two days longer the great establishment must have closed its doors. Numbers of financial corporations, however, did

⁸⁵ The same condition of things transpired twenty years afterwards with the house of Baring. It had taken half a century to build the firm up. It only took three years for the younger generation to pull it down.

suspend and were wound up. And again the famous Bank Act had to be suspended to prevent the Bank of England from stopping payment.

Such are the principal panics and revulsions that have swept over England, the United States and Canada, during the last century.

LESSONS TO BE LEARNED.

And now, it may be asked, what is the moral of it all? What use is it for the present generation to dwell upon the record of the follies of the past, and their punishment? There are various reasons; but the principal one is, that what has happened before is undoubtedly liable to happen again. It is true that we have not had for thirty years past such stupendous catastrophies over a wide area as those of 1825 or 1857, but we have had collapses, and reverses quite as severe in a more limited sphere. The Black Friday of Wall Street, when Jay Cooke & Co. suspended, was quite as sharp a crisis as that which followed the suspension of Overend & Co., in Lombard Street, and we have had sharp lessons of the same kind since; confined, however, to a limited area. There has been no general break-down of credit, affecting the whole country, and characterized by the failures of numerous banks and the fall of numerous mercantile houses of the highest class.—yet the return of such a convulsion as that of 1857 is quite within the bounds of possibility. Therefore the old adage, "Forewarned is Forearmed," has a pertinent application here.

But what is it to be "forewarned?" No banker can afford to be nervous and disturbed at every change that clouds the financial horizon. The true course is to learn from the events of the past and, with such a chart of past disasters before him, as is contained in this chapter, every banker (and every merchant, too) may ask himself the question: Is the condition of things now prevailing like that which prevailed before the great break-down of 1857, on this side of the Atlantic, or that of 1847 or 1825 on the other side? Is there a great and universal spirit of speculation abroad, of a constantly increasing volume, all based on banking credit? Is there a general prevalence of extravagant living (mostly based on credit, too) so general as to lead to unusual importations of luxuries from abroad? Is there any sign that vast masses of accommodation paper are being set afloat and discounted, unconnected with the ordinary currents of business? Are the resources of the banks steadily falling and continuously keeping below a safe position? These questions are the pertinent ones in the case; and, on the answer to them will depend the action that every individual banker may take.

But it is fortunate that the action of individual bankers will not be the determining factor in the case. In this generation, there has been a remarkable development of the principle of *Association*, and the action of one bank upon another, both in the United States and Canada. The Association of Banks in New York is a great conservative power; so is that of the American Bankers' Association for the whole country; so also is that of the Bankers' Association of Canada. Well-digested ideas of the true methods of banking are much more prevalent than formerly.

But it must always be with bankers as a body to resist any extensive development of inflation that may threaten to sweep over the country.

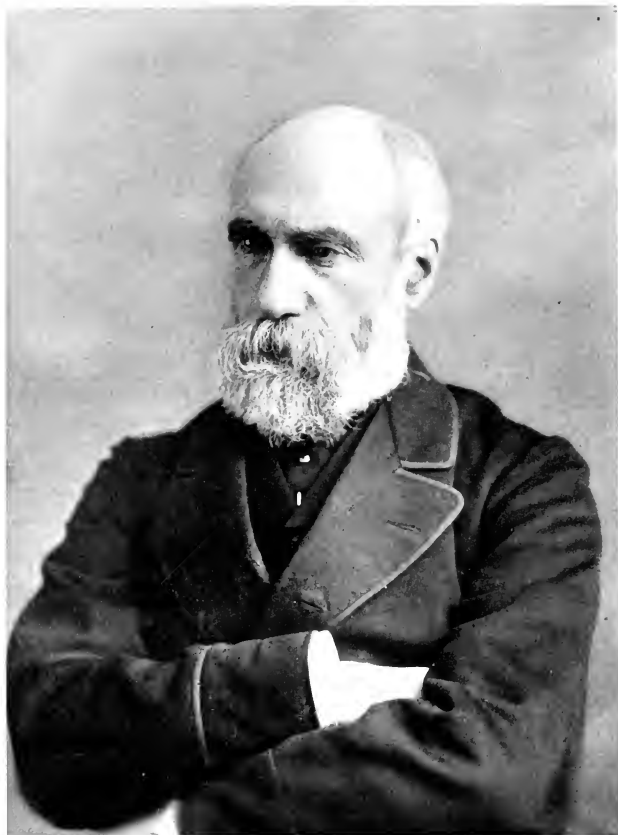
They hold the purse-strings. No matter how wild a spirit of speculation may pervade the people, it cannot proceed far if bankers refuse to lend money to foster it.

The whole fabric that comes crashing down in times of revulsion is based upon *borrowed money*. Here is where the banker's power has its scope. There can be no borrowing unless the banker is willing to lend. He holds the key of the position. The final issues are with him; and it is not too much to say that it depends upon bankers alone whether there are to be any more panics and revulsions.

Thus far, with regard to bankers, and the banking interest. But turning to the great public who are apt to be carried away in these times of excitement, there can be no doubt that the events recorded in this chapter are well worthy of consideration by them. They are full of important considerations especially for a *younger generation of business men*, and may all be summed up in one pregnant utterance of the wise Solomon: "*He that hasteth to be rich, shall not be innocent.*" It is the *hastening* to be rich, especially by means of operations foreign to a man's own business, that brings on the fever which deprives men of their senses, and ends in revulsion and ruin.

And again referring to the philosophy of the wise man of Judea, it is labor that brings the profit that lasts. To labor in any one of the employments developed in these advancing times, so as to be of service to the community, is the true vocation of man upon earth. Such labor is always interesting; sufficiently exciting, and generally profitable. And if wealth by this process is only built up slowly, it is universally the case that there is satisfaction in the spending of it, and a good chance to conserve it safely to the end, and bequeath it to those that come after.

**THE AUTHOR'S EXPERIENCES
IN FIFTY YEARS OF BANKING
LIFE IN ENGLAND AND CANADA**



C. M. S. Smith

With Sheffield Banking Company, 1840 to 1851. With Bank of Toronto as
accountant and manager, 1856 to 1876. General Manager of
the Merchants Bank of Canada, 1877 to 1902.

CHAPTER I.

EXPERIENCES OF BANKING LIFE IN ENGLAND.

INTRODUCTION INTO BANKING—EARLY EXPERIENCES—CASH CREDITS—
METHOD OF DEALING WITH TRADE BILLS—TROUBLESOME ACCOUNTS
—TRANSFER TO HEAD OFFICE—WITHDRAWAL FROM BANKING FOR
A TIME.

HAVING when a boy shown considerable aptitude for arithmetical calculations, it was decided that Banking should be my occupation in life. I entered, therefore, a banking office in Yorkshire, England, at the age of fifteen, being duly indentured by deed, in which I bound myself to serve diligently and faithfully until I attained the age of twenty-one. The bank into whose service I entered, at their Rotherham Branch, was the Sheffield Banking Company, an institution which from the beginning has had a continuance of able and successful management.

The chairman of the board was a gentleman of independent means, much given to studies in political economy; well versed in the history and principles of banking, who had himself written a treatise on "Value;" a subject much discussed by political economists from Adam Smith downwards.

Associated with him was a board of directors composed of men of high standing in the town, most of them in active business in the steel or iron trades. The most prominent of these was a Quaker, a man of considerable means, as will be seen later on, whose distinguished presence, courtly manners, and high intelligence impressed all who came in contact with him. Another director was the head of the well-known firm of Joseph Rodgers and Sons, the great cutlery manufacturers.

The bank was one of the earliest of the joint-stock banks established after the monopoly of the Bank of England was broken.

The business of joint-stock banking in England was then in its infancy. Not much could be learned from the experience of the Bank of England, whose foundation and methods were unsuitable to be taken as models by any ordinary institution. The directors of the newly-formed banks in England had therefore to "feel their way" somewhat; for no such body of trained managers existed as are to be found there at the present day. Nearly all the banking of England, apart from the Bank of England itself, was in the hands of private firms; but their methods were not altogether suitable for a joint-stock bank. The partners in these firms gave daily attendance at the bank, as if they were the heads of a mercantile establishment; and in charge of the office was simply a

head clerk, who sat with the rest of the employees. This latter feature, in fact, survived after entirely different conditions were established; and, in some instances, survives to this day.

But this head clerk had as a rule no managing powers such as appertain to the modern manager. One of the partners generally signed the name of the firm to all drafts, bills, letters, and documents, and transacted business just as a merchant would in his own counting-house.

But no board of directors could be expected to carry on the business of a joint-stock bank in this fashion. There was necessity, therefore, to appoint a Manager with signing powers, and also much of the discretion which a managing partner would exercise. And as the chief banks of Scotland were joint-stock companies, and, unlike the Bank of England, were transacting the commercial business of the country, it naturally came about that their methods were adopted by this new style of banks in England, with modifications according to circumstances.

The joint-stock banks of England, therefore, having no trained body of experts to draw upon, and no accumulated stores of experience for their guidance, had each of them to carry on the business in the best way they could. Their success or failure, therefore, largely depended upon the personnel of the directors; and some of them made lamentable failures. Among the most prominent of these were the Bank of Manchester, the Royal Bank of Liverpool, the Yorkshire District Bank and the Western Bank of England; all large and important institutions in their own locality, and all of whose failures were attributable to violations of rules now universally established in banking, but which were then only beginning to be evolved from the chaos of ideas on the subject. Others of them, being in the hands of men who had made a study of the principles of banking, gradually established themselves in public confidence, grew with the growth of the community and the development of its trade, and are strong and prosperous institutions to this day. Of this latter class the Sheffield Banking Company was one. But it is only right to say that a large measure of this success has been due to the singularly able management of a man, who, entering the bank in a subordinate position, rapidly rose to the highest place, which he retained until his death fifty years afterwards. He became known in time all over England as one of the prominent bankers of the day, and closed his career of exceptional success only a few months before these pages were written.

Such was the bank into which I was introduced at its Rotherham Branch, as a raw youth at the age of fifteen. This old Yorkshire town was partly manufacturing, and partly agricultural. With its suburbs it had a population of about ten thousand (now increased to fifty thousand) and was the seat of iron and steel works, rolling mills and foundries, all of which in a former generation had belonged to one great firm, whose business had been developed from the smallest beginnings, its founder

being a simple blacksmith. They became in time, bankers as well as manufacturers, but their banking business was ultimately converted into a joint-stock company in which form it still continues as one of the most prosperous institutions in the North of England.

The heads of the great firm all accumulated fortunes, gradually drew out of the business, and became country gentlemen or partners in London banks, their foundries and rolling mills passing into the hands of men, some of whom had been foremen in their shops, and others clerks in their offices. These men, in their turn, rose to a higher position, and for the most part became the heads of flourishing establishments.

The banking business of these concerns was divided between the two banks of the town, of which ours was one; and during the eleven years of my connection with the bank, not one of our manufacturing customers failed.

The town, however, had a fine farming district round about it, and many wealthy landowners and prosperous farmers. One of the largest cattle markets in the North of England was held in it weekly. It had also a considerable corn and cheese trade, as well as flour mills, malt-houses, and breweries.

The bank therefore had a miscellaneous range of accounts, and during the period of my clerkship there, I came into contact with men of various occupations, and laid the foundation of experiences which stood me in good stead in subsequent years. For it was the custom in those days for the heads of firms themselves to come in person and transact their banking business, and if they wanted to talk to the manager, they often carried on conversation at the counter. Thus I had the opportunity of hearing a good deal which no clerk in Canada ever hears. Men whose names and wares are well known to this day in the United States and Canada regularly came to the counter every Saturday (the great business day of the week) brought their bills for discount, and carried away bags of gold and silver in their own hands for the purpose of paying wages.¹ The bank was a sort of confidential institution in those days, and they would never entrust their business with it to clerks and messengers.

The manager had no private room. But if he required to have a confidential talk with a customer, the board room or his own parlor was at hand. Seldom, however, was there any use of this room (apart from board days) unless when an account was working irregularly. Then the manager would desire an interview with a customer for the purpose of conversing with him. On the result of this conversation would depend whether his checks were to be honored or not; in fact, it might be, whether he was to continue in business or not. (See note at the end of this chapter.)² Hence the room came to be known as the "sweating-room." When then on a busy Saturday it was intimated to some cus-

¹ It must be remembered that no bank notes were issued below five pounds.

tomers at the counter that the manager "would like to see him in his room," we clerks knew very well what was awaiting him.

ADVANCES BY CASH CREDITS.

The *modus operandi* of the business was largely founded on Scotch methods. Every customer who desired regular advances applied for a cash credit. This, if granted, was worked exactly as in Scotland by overdraft on current account. With regard to these credits, three fixed rules were observed. The first, that they should not exceed in amount one-tenth of the annual turnover of the account. The second, that they should be entirely cleared off at least once in each year. The third, that they should be granted exclusively by the board, and on proper security. The manager could grant no such credit on his own responsibility; though he could discount trade bills.

His business was to see that the advances were kept within the amount of the credit. He could certainly exercise a discretion as to whether checks, which would overdraw it temporarily, were to be honored; but this he did on his own responsibility. But any customer whose account was invariably up to the limit and tending to rise beyond it, was made to feel that his business was undesirable.

We charged a uniform rate of five per cent. on advances and discounts, and a quarter of one per cent. in addition on the debit side of the account. Divided accounts were unknown. Such a thing as obtaining a cash credit at more than one bank was unheard of; and, if attempted, would have been met at once with a request to close the account.

Sometimes, however, a casual discount, or the cashing of a check would be offered by the customer of another bank at a distance, and some of the troublesome transactions of the Rotherham Branch occurred in this way.

There was a manufacturing village about four miles off. In this village were situated the great works of a firm in the porcelain trade. Sometimes the astute heads of this concern beguiled our branch manager into cashing a check on their London bankers, which check would sometimes be refused. And well do I remember being sent over to see these people (living in great style) on one winter's morning before breakfast, to endeavor to obtain payment of a dishonored check, being expected to be back by the time the bank opened. I did not get the money. And as I had to walk there and back, it was a pretty severe experience. In the same village a general store business was carried on by a very clever man who had more ambition than capital; and had created quite a sensation by purchasing the fine residence and grounds of the Squire, and turning the front of the house into a store. This step, however, proved his ruin. His business expenses were now larger; so were those of his family; and he was constantly short of money. He kept his account in the Yorkshire District Bank, at Doncaster; but he would occasionally drive over

to our town (which was much nearer) to get a check cashed. This the manager sometimes did for him. The checks were generally paid; let that be said to his credit. But one day a rumor got abroad that he had failed. This proved to be true; and the manner of it came to our ears a day or two afterwards. His banking account was almost constantly overdrawn. The head office at Leeds, after remonstrating repeatedly with the manager at Doncaster, at length ordered him to put into effect a security which they held for his advances. This security was in the shape of a formidable instrument called, I think, a *Cognovit*, by which they were empowered without notice, to take possession of his stock in trade and all that he had. The manager, having received these peremptory orders, with the *Cognovit* in his pocket, drove over to the village. On his way he met the unfortunate storekeeper, who was driving over to Doncaster to see him to beg for time to arrange his affairs. The manager, on meeting his customer, merely nodded, and drove on. The storekeeper continued his journey to Doncaster, saw another official of the bank, learned the purport of the manager's journey, and drove hastily back to find himself a ruined man, his store closed up, and an officer in possession. The bankers in the neighborhood generally thought this was rather sharp practice. I think we held a check for some twenty pounds (£20), but the dividend was small, and we lost the greater part of it.

We had other casual business from people in the neighborhood; but never from people in the town. All their dealings with us were in the shape of credits, duly authorized by the board, and secured. But occasionally a person in good credit who did not need regular advances, would drop in, and ask for an advance of fifty pounds or so on a promissory note. One of these was a landed proprietor in the neighborhood, a jolly John Bull sort of a gentleman, whose borrowings have stuck to my memory because of his invariable habit of letting his bills be protested. But he just as invariably took them up soon afterwards. He was one of those oddities, so common in England, of whom Dickens's pages are full, and I remember once, on the manager reminding him that his habit of letting his bills go to protest must cost him a good deal of money, his replying: "*Oh, I do this on principle. I don't keep any particular account of my bills. But when they are protested, I know I have to pay them.*"

METHOD OF DEALING WITH TRADE BILLS.

The manner in which trade bills were dealt with was diametrically opposite to that which prevails on this side of the Atlantic. Instead of the bills being submitted to the manager or the board for examination, some of which might be passed, and some thrown out, they were all passed to the credit of the customer by the teller, just as if they were checks or drafts on a bank. This might seem to us in Canada or the United States a very risky mode of doing business; but it was, in fact, nothing of the kind. And for this reason: all the bills paid in to a cus-

temer's credit were made payable in London, and sent up to our bankers for collection. Rarely, indeed, were any of these sent back protested; for, if any customer's bills came back often, he was taken sharply to task, or desired to close his account.

As to any applications for renewals of trade bills, they were never heard of. If such an application had been made it would have damaged the credit of the applicant beyond redemption. The truth was, that the bank would keep an account with no man unless his bills were good enough to pass without being first submitted to the manager. Not that they were never scrutinized; for they were examined most carefully as to their legality, the sufficiency of the stamps, the regularity of endorsements, and so on.

Another fundamental point of difference was, that ordinarily no limit was placed upon the amount of trade bills discounted for a customer. One reason for this was, not only the uniformly high quality of the bills themselves, but for the facility of rediscounting in the London money market. Rediscounting is almost unknown on this side the Atlantic; but it was, at that time, quite common for even the best banks of England to send batches of bills to the great discount houses of London and have the proceeds placed to credit with their own bankers. There was, therefore, no special reason to impose limits to the trade bills. But very careful and exact limits were imposed on the loans.

The system worked well, and the high quality of the business done may be gathered from the fact that the losses of the whole bank rarely amounted to over five hundred pounds a year. I well remember the chief manager once writing me, after I had come to Canada (for I corresponded with him until his death), in a vein of low spirits over the bad times they were passing through, and his expressing the fear that the losses of the year would amount to a thousand pounds! Yet the bank did the leading business in one of the largest manufacturing districts of England.

The majority of the accounts in the branch where I served my apprenticeship gave very little trouble. Trade was quiet but prosperous, and a failure was a rarity. During the six years I passed in the branch I do not think there were six failures in the whole circle of our customers. The population and wealth of the town have increased enormously since then. Gas-lighted streets now extend over the suburban country-lanes of my early days. But the characteristic of safe banking still adheres to it. Only a few years ago, I was once again in the office where my early years were passed, and the manager told me he had not lost £100 a year for seven years back, and had never had a past-due bill in his wallet *for more than a week* during the whole of that time. Yet the branch had done a very large business, and must have had credits out at all times of hundreds of thousands of pounds.

TROUBLESOME ACCOUNTS.

We had, however, during my time a few troublesome things to deal with, and part of my recollections are of copying out some of those formidable documents of security already mentioned; and also long lists of the chattels of a customer, whose stock we had taken possession of under one of them. Well do I remember the troubles of that old man as he stood at the counter when "hard up" and begged the manager to allow him to exceed his credit. But he had to fail at last, and we to realize our security. It is interesting to relate how his sons, out of the wreck of their father's business, built up one of the largest manufacturing concerns in the district, and became prosperous and wealthy men, with handsome villas in the breezy suburbs just mentioned.

We had during that six years two cases of forgery. One was of a casual customer for whom we had discounted a few small bills, some fifty or a hundred pounds in all. He belonged to the class of half-gentleman, half-man of business, of whom we used to have many representatives in the early days of Canada, and some of whom I afterwards had to deal with in one of the branches of the Bank of Toronto.

They were, as a rule, highly honorable men, but given to live beyond their means. But forgery was about the last thing to suspect them of.

This man, however, who lived with a widowed mother, a lady of good position, had fallen into the terrible temptation to forge bills; and well do I remember the consternation of the family when it was discovered.

Another troublesome customer (I dwell on these because they were typical cases, such as are known by bankers everywhere) was a large timber merchant, with a good business, very loosely managed. He allowed his customers far too much latitude; and gradually got his books filled with what we would call a mass of "lock-ups." The consequence was he was always short of money. I well remember one day (it was pay day for his men) that he came to the bank as usual, begging for money beyond his credit. On the manager positively refusing, he pulled out of his pocket a handsome gold watch, and begged for an advance on that! Yet he lived in good style, and occupied one of the handsomest villas in the neighborhood. This style of thing, of course, came to end at last. The bank demanded payment of his account, and notified his guarantors, who were wealthy relatives. They disputed the correctness of our account, demanded proof; and well do I remember the long search over stacks of vouchers, which had been filed away for years, in order to prove the correctness of the final balance we required them to pay. We established our case at length and got our money. He disappeared from the scene, and his business was taken up by the manager of his yard, a prudent and economical man, who built up a splendid connection and fortune for himself out of it.

But the long search for these vouchers impressed me strongly with

one of the drawbacks to the system of advances by overdraft on current account.

Such were some of my early banking experiences, out of which grew object lessons well remembered in after life when I came myself to occupy the position of manager in that far-distant country of Canada to which I had, at that time, as little prospect of going, as I had of being transported to the moon.

TRANSFER TO HEAD OFFICE.

A change came at length. I was transferred to the head office in Sheffield, and bade adieu to the branch and its associations with little regret; for I was to enter upon a scene of greater activity in an office with an immensely larger number of accounts, where opportunities of gathering experience would be much increased. Besides this, all the life and bustle of a big manufacturing town would be before me every day. In that office I spent the next five years, and came into direct contact with the Chief Manager, of whom I have already spoken, together with a number of men who were my superiors in ability and position. There were three cashiers (or tellers) at the counter, and on busy days four. We had about a thousand active business accounts in the ledgers as well as a considerable number of fixed deposits. The business was active and flourishing even then (though it has immensely increased since), and altogether the change was, at first, decidedly agreeable.

My work, however, was much more monotonous. In the branch I had to take a hand in everything, except waiting at the counter. In a small way the whole experience of a banking office came before me; and, although I did not actually perform the duty of teller, I had plenty of practice in assisting the manager to sort notes, count gold and silver, arrange checks and drafts, conduct correspondence, and handle and examine trade bills. The names on some of these I remember to this day.

But in the head office there was a thorough subdivision of work, and each man did one thing only. I was little better than a junior in age, but was put in charge of one of the current account ledgers, which post I retained until I left the bank.

It was monotonous work, and at times I fretted over it a good deal. But there was a most important education in handling these ledgers, for they contained the whole of the *cash advances* of the customers of the bank. It was there I learned the position of all the manufacturing houses who did business with us. Many of the names were known all over the world, and are to this day, in the United States and Canada as well as elsewhere. Some of them were wealthy and strong beyond question, and kept far within the line of credit allowed them. Most of the others were in good position, doing a thriving business on adequate capital.

But there were a few—a very few, considering the number of the

whole—who were evidently short of capital for the business they were doing. These customers were always, financially speaking, “on the ragged edge” of their credit, often wanting to overdraw, often asking for unreasonable concessions, none of whose checks could be cashed without reference.

No system of marking checks “good,” was in vogue in the town; but we ledger-keepers were expected to inform the manager when accounts were overdrawn. This, however, was too much like locking the door after the horse was stolen to satisfy so clever a manager as we had; and after a time he moved the ledger-keepers to the front of the office (we had hitherto been far away from the counter), immediately behind the cashiers, who were instructed to hand checks to us to be certified for payment. This we did generally from memory, and I think I could without difficulty have made out from memory a fairly accurate statement of the debit balances amongst the five hundred accounts in my ledger.

During the time I was in the head office of the bank the terrible panic of 1847 transpired. The great features of this panic are treated of in a separate chapter; but it is remarkable how little it affected the financial and commercial position of Sheffield. No great failure transpired in the town, and the only measure of a restrictive character taken by the bank was to *limit the time* of the trade bills discounted. Yet London was convulsed with agitation. Great houses were failing every day, as I well remember from the newspapers of the time, and the Bank of England rate of discount rose to ten per cent. before the panic abated. Our manager was one of the country bankers who had strenuously opposed Sir Robert Peel’s currency legislation of 1844 as founded on a mistaken theory. Many of the country bankers had ridiculed the idea that such legislation would put an end to panics, and their contention was justified by the event.

Another event of importance was the failure of the leading private banking firm of the town. This, however, had no connection with the panic. The partners had long been the leading people of the neighborhood; the head of the firm being a Member of Parliament, and the bank, at one time, had nearly all the business of the district. But it did business in a generous, old-fashioned style, and got its books full of lock-ups and uncollectable debts. Its downfall was inevitable when times of competition set in; yet the people of Sheffield had great confidence in it, and its deposits and circulation were large. The failure produced immense excitement. But there was no run on the other banks. What dividend was paid I do not remember; but I do recollect that we got a large accession of depositing customers and the accounts of public bodies, and also a few desirable accounts of manufacturers and merchants.

The railway to Manchester was under construction at that time. It was a mere railway from one town to another, as nearly all the railways in England were in their origin. The great combinations which now

exist were then unthought of. This road from Sheffield to Manchester is now a part of a great system stretching all the way across England. But it was planned as a purely local road. It cost an enormous amount of money, as it passed through a very hilly country. Hardly a mile of it was on level ground. Its construction required an inordinate number of bridges and embankments, and one of the longest tunnels in the world was needed to enable the road to burrow its way through the great moorlands that separate Yorkshire from Lancashire. Numbers of people in Sheffield had subscribed for the stock who could not afford to take money out of their business for the purpose, and numbers of suits for calls were the consequence, creating much local distress.

This produced the nearest approach to a real tightness of money that transpired during the whole period of my clerkship.

Five years of my life thus passed. My work in the bank varied little, yet I was daily becoming more expert in the work of an accountant, and forming habits of thoroughness and absolute accuracy, together with the power of long and concentrated attention. And I was learning to discriminate between desirable and undesirable customers, and to understand how the profits of the bank were made, and how its losses were avoided; all which stood me in good stead in my future career. I was becoming, too, acquainted with the names and character of most of the leading banks in the Northern and Midland counties of England, and heard discussions on their modes of doing business. The great banking firms of London were also constantly before us, as well as the discount houses and the Bank of England, with whose branch in Manchester we used to correspond. And well do I remember the interest with which on the occasion of a holiday visit to London, I strolled up Lombard Street, and went into some of the larger banks, such as Glyn's, Barclays, and Smith, Payne and Smith's, watching with eagerness their crowded counters and rushing business; little dreaming how familiar I should be with Lombard Street at a future day, in a very different capacity.

Though the Sheffield manufacturers did a very large business with the United States, I do not remember that we had correspondence with any banks there. Most of the business was done through Liverpool houses and particularly through the great firm of Brown, Shipley & Co., so well known on this side the Atlantic. Of Canada I knew absolutely nothing.

TEMPORARY WITHDRAWAL FROM BANKING.

But at the end of five years circumstances arose which made an increase of income absolutely needful; and as there was little prospect of it in the bank, and my health, moreover, being impaired by close confinement, I sought and found a mercantile position in which I had not only a considerable accession of income, but much employment in the open air.

Thus, for a time I left banking altogether, having had before me

the invaluable lesson of an institution conducted on sound and well-considered principles, which led it to a high plane of success; which did in fact, furnish me in after days with a model towards which, when the responsibilities of management were placed upon me, I strove to mould the business with which I had been entrusted in the far-off country where my future lot was cast.

2 Referring to the Quaker gentleman named in an early part of this chapter, a very interesting incident was related to me of him, not long ago, by the distinguished chief manager of the bank already spoken of. The incident affords a striking illustration, on the one hand, of rigid adherence to lines of duty laid down, and on the other, of a coincident exercise of benevolence which was characteristic of the man.

A certain firm in the town had risen from very small beginnings (the head of it having once been a workingman) into a position of considerable prominence in its own line of business. The founder of the firm had struggled in earlier years to give his sons a good education; and they, in due time, were taken into partnership. The eldest of these was a man of exceptional intelligence and vigor of character. Under him the business gradually enlarged, their capital grew also to some extent, but not so fast as the rapidly-extending requirements of the business demanded. For they made very fine goods, and had a splendid connection. They, at length, took the important step of erecting immensely enlarged works; and from that time onwards were continually cramped for money. In fact, they were rather in the habit of neglecting the finances of the business and concentrating their attention upon manufacturing. Their account was almost invariably overdrawn; and I have frequently seen this leading partner waiting at the counter with trepidation to learn whether the checks he had drawn for wages to his men could be paid.

The account was one, therefore, which, though large and profitable, considerably tried the patience of the manager.

Matters went on in this way for some time, but at length they came to a crisis. Wages in the town were invariably paid on Saturday afternoon; and to pay them was an absolute necessity. On one particular Saturday, the account having for some time been above the authorized limit, the head of the house (for he had become such by this time) appeared at the counter as usual, and presented a check which would swell still more largely the already overdrawn account.

The manager strongly remonstrated; but the party replied that he must have the money; that he had no other means of getting it, he had no more trade bills to offer, that his wages must be paid that afternoon, in default of which the firm must close their works and be ruined.

Still, however, the manager was firm. But on being further appealed to, he said, "Come with me to E. S." (the Quaker director already referred to) "and we will see what he says about it." They went accordingly, and had a long interview with him. What transpired was this, as the manager told me himself. The director, speaking in the language used by "friends" at that time, said to the customer, "Thou knowest, William, that the bank has given thee a very liberal credit, and that the manager has been very indulgent with thee in allowing it to be often overdrawn. But he did right to-day, in refusing to give thee what thou wanted. There must be a stop put to this manner of conducting thy account. I cannot, and will not take the responsibility of allowing the credit to be exceeded further."

Notwithstanding the urgent entreaties of the customer, the director remained firm, and there the interview ended. The manager and the customer then took their departure, the latter terribly downcast; for nothing but ruin was staring him in the face.

But just as they were turning into the street, the manager heard the director's voice, calling out loudly to the customer, "William Thompson, come back. I want to see thee." He accordingly turned back, and the manager waited for him. In a few minutes he rejoined the manager, this time with a smiling face. "What

did he say to thee?" said the manager, for he too was a Quaker. "He has lent me a thousand pounds out of his own pocket," he replied.

This crisis in the affairs of the firm being got over, a better style of financial management was introduced. They were never in difficulties again, and their business went on prospering and developing until they became one of the largest firms in the world in their own line of business, which they are to this day. The head of the firm, the very man who used to stand supplicating at the bank for money to pay his workmen's wages, died a few years ago leaving an estate of over a million sterling, and this after making munificent gifts to the town in the shape of a fine public park, a very large sum for local improvements, and building a range of noble almshouses for poor widows. His mansion is one of the finest residences in that part of Yorkshire, and in it he once entertained the Prince of Wales. He died lamented by the whole community and has left a name which will never be forgotten so long as the town lasts. But I need not say his name was not William Thompson.

CHAPTER II.

MY EXPERIENCES OF BANKING IN CANADA.

PRELIMINARY—FIRST ACQUAINTANCE WITH CANADIAN BANKING—EMPLOYED BY THE BANK OF TORONTO—STRAIGHTENING OUT A BRANCH—REVULSION OF 1857.

AFTER leaving the Sheffield Banking Company, I entered the employ of a large flour miller as cashier and traveller. The proprietor had formerly been a railway contractor, from which business he had retired with a competency. But while carrying on his flour mill, he entered the field of railway construction on this side of the Atlantic; undertaking extensive operations in connection with his partners in New Brunswick and Lower Canada.

I had charge of the financial department both of his milling business and of the contracts; and was ultimately sent out to Montreal, in connection with the latter. I now had the opportunity of seeing something of the United States for the first time, and was astonished to see such cities as New York, Boston, Albany, etc., of which, with the usual insular ignorance of a young Englishman, I had formed such inadequate ideas. In Montreal I remained until his death by shipwreck brought the whole business to a close. During this four years' experience I learned invaluable lessons, such as I could scarcely have learned in any banking office, no matter how extensive its business might be.

FIRST ACQUAINTANCE WITH CANADIAN BANKING.

It was while conducting the financial affairs of this firm in Montreal that I came into contact for the first time with *Canadian banking*. But the methods of a Canadian bank were wholly different from what I had been accustomed to in England, especially in the matter of paying in and drawing out money across the counter; and it was long before I became accustomed to them. The English method, I thought, was much more simple.

The mode of discounting trade bills was not essentially different, but the method of granting credits was so absolutely dissimilar that during the whole time I had to transact business from the *outside* of a bank counter I never properly understood it.

I have discussed the difference elsewhere.

I learned also while doing business outside the counter, the *modus operandi* of a style of banking of which I had had no experience before, namely, the negotiation of sterling bills. The whole of the financial arrangements of the firm depended upon this, and I became about as

familiar with the business then as I was in after years as manager of a bank.

The head of the firm, however, was lost on the steamship "Arctic." His partners found it impossible to raise the capital for carrying on the great contracts that had been entered on, the Crimean War being then in full progress, and the money market of England clouded over with apprehension. The construction of roads was, therefore, stopped, and a large number of officers of various grades, of whom I was one, were thrown out of employment.³

I was, of course, by that time well known in Montreal. We had kept our account, and a very large one it was, with the Bank of British North America. As the financial manager of the firm, I had become acquainted with men whose names afterwards became prominent in the banking sphere, not only of Canada but of the United States. The assistant manager was Mr. Charles F. Smithers, afterwards well known as Agent of the Bank of Montreal in New York, and subsequently as its General Manager. The chief accountant was Mr. E. H. King, who was even then displaying those extraordinary talents for calculation which afterwards distinguished him in the higher sphere of General Manager. Little did I dream at that time how closely I should be associated with these gentlemen in after life; and especially that it should be my lot to take part, as manager of another bank, in a determined opposition to Mr. King's policy of revolutionizing the currency system of Canada, some twelve years afterwards.

When the affairs of the contracting firm were wound up, and being out of employment, my natural resource was to fall back upon my own profession, and seek a position in a bank. My first application was to Mr. Davidson, who had by this time become General Manager of the Bank of Montreal, and had taken over with him Mr. Smithers and Mr. King. He, however, gave me no encouragement. The bank was rather restricting than extending its business in consequence of the monetary cloud caused by the Russian War. I had obtained an introduction to the President of the Commercial Bank in Kingston, a bank which then stood almost on an equality with the Bank of Montreal in the value of its stock and the business of some of its branches. Well do I remember calling at the bank to present my letter. The bank occupied a splendid building, and all its appointments were very fine. I was courteously received by the President, a distinguished-looking gentleman of the old school; but he gave me the reply, which I subsequently gave myself to dozens of applicants, that they had no vacancy at present, but would place my letter on file and give it attention when circumstances called for it. Of this

³ In view of subsequent developments it is interesting to notice what these contracts were. Several of them were for lines that ultimately formed part of the Canada Pacific or the Grand Trunk System, but, singular to say, the firm had entered into a contract to construct a wagon road, and subsequently a railroad, across the Isthmus of Tehuantepec in Mexico, starting from Vera Cruz, and had sent out a party of surveyors to lay out the line.

bank I shall have something to say later on; meanwhile will observe, as an illustration of the changes time brings on, that in that very room where I had stood as an applicant for the position of clerk, I stood twenty years afterwards as the General Manager of a bank that had succeeded to its whole business.

EMPLOYED BY THE BANK OF TORONTO.

Meantime I had obtained employment of another character, and the business I had in hand took me to Toronto. At that time there was only one bank that had its headquarters there. I had no introduction to any of its officials, and knew nothing of them; in fact, by this time I had given up the idea of banking altogether. My re-entrance into it was determined by one of those accidental circumstances which, apparently of the most trifling character, sometimes determine a man's whole future career.

Talking one day with a friend, he incidentally referred to a *new bank* about to be established in the city, and asked whether it would not be well for me to seek a position in it. He knew some of its promoters, and offered to give me a letter of introduction to one of them. I fell in with the proposal. The letter was given. The party to whom it was addressed, a respectable merchant in the flour trade, referred me to the gentleman who was, he said, to take charge of the bank when it was established. This gentleman was the second officer of the Bank of Montreal in the city. I waited on him. He, however, gave me little encouragement; said the affair was a mere project at present; that certainly a Charter had been got, and subscription books opened in various places. But they were proceeding slowly; very little money was coming in, and he rather doubted whether the project would ever take practical shape. He said all this to me, of course, "in confidence"; for my letter of introduction put me on a confidential footing; besides which I gave him as references the names of first-rate people in Montreal whom he knew. Moreover, he said in the usual way, that he would "*bear it in mind*." I called again, with the same result, which confirmed me in the idea of abandoning banking altogether.

A short time afterwards, however, having finished my business in Toronto, I was preparing to leave the next morning, when it suddenly occurred to me (little did I think that that accidental thought would influence my whole future life) that I might as well go to the Bank of Montreal and see this gentleman again. To my surprise I found his tone wholly changed. He told me that matters had considerably progressed lately; that a provisional committee had been appointed, that they had leased an office for business; that he could offer me the position of accountant, provisionally, and that I might proceed to the office and open the first books at once. The salary offered was moderate enough, as might be expected, far below what I had had in Montreal; but I accepted it as a beginning. A few days afterwards I entered the office

in which the business of the Bank of Toronto was carried on during the first eight years of its existence. And thus in very humble fashion did I commence my banking life in Canada.

In the Bank of Toronto I continued twenty years, in the Merchants' Bank of Canada twenty-five years more, thus making with my eleven years in the Sheffield Banking Company, a banking life of fifty-six years before I finally retired.

It was on the twenty-third of March, 1856, that I opened the first book of the bank by entering up the sums received to that date from subscribers to the stock. The whole amount was only some twenty-five thousand dollars. We could do no banking business until one hundred thousand dollars was paid in; and at the rate at which subscriptions were being paid, it seemed as if a very long time must lapse before we could commence banking. I was for several months alone in the office, conducting, however, a large correspondence with subscribers or inquirers, the former being mostly requests for instalments to be paid up as speedily as possible. Once or twice I visited localities where subscribers resided, very much as a commercial traveller would do, for the purpose of collecting instalments. One day when I was sitting alone in the office, my good wife called for me. Looking round upon the quiet place with no signs of business visible, she said with true wifely anxiety, "*I am afraid this will never be a bank!*" And I more than once thought so myself.

When a young man in England, a play by one of Dickens's associates was running its course, entitled "*Time Works Wonders.*" There never was a more perfect illustration of it than the career of this bank. For as I revise these lines there lies on my table the statement of the bank for the year 1908 which reads as follows:

Capital paid up.....	\$1,000,000
Rest (accumulated reserve fund).....	4,500,000
Total assets	39,700,000

From this it appears that its deposits are \$26,800,000 and its circulation of notes nearly four millions more.

Who could dream that I, as accountant, was ever employed in that very bank, slowly entering moneys paid in on Capital Account, which amounted at that time (1856) after months of labor, to no more than thirty thousand dollars, and almost despairing that the sum would ever reach one hundred thousand dollars. Time has certainly "*worked wonders*" in this case, and illustrated the truth that "*Great oaks from little acorns grow*"; and also that men should never despise the days of small things.⁴

⁴ But, after all, the growth of this bank is but a type of the growth of Canadian banking as a whole. One item of this growth can be taken as an illustration of the whole. At the time of which I am writing, the deposits of all the banks unitedly, Savings Banks included, in the whole country now called the Dominion of Canada, were not more than fifteen millions of dollars. The same item, that is, of deposits of banks of all kinds, together with those of loan com-

Subscriptions continued to come in slowly, but towards the middle of summer, strenuous measures were taken by the Provisional Committee to work up the amount paid in to \$100,000 so as to enable the bank to commence business before the great crop movement of the fall season began. Their efforts were successful. The required amount was obtained, and the bank was in a position to open for business.

Previously to this, however, a very important step had been taken by the gentleman chosen as the future cashier. To understand the bearing of this, however, it is necessary to go back a little.

The project of the bank originated with a few men in Toronto and the neighborhood, all of whom were millers or in the grain trade, who took the step because of the utter indisposition of the Bank of Upper Canada to afford facilities for moving the crops and purchasing grain. The branches of the Montreal banks were not well affected to this line of business either. They preferred the accounts of wholesale importers. These millers were men of sufficient standing to secure a Charter and start subscriptions. They determined, however, to keep the control of the future bank in their own hands. A well-known and prominent miller was to be President. It was, in fact, often popularly spoken of as the "Millers' Bank." But when overtures were made to the officer of the Bank of Montreal before mentioned, he demurred to this feature of the business, and finally stipulated for two things: first, that the President must be a man of independent means and out of business; and, second, that half the remainder of the board should be men *connected with general mercantile business* and not with the grain trade.

The suggestions created considerable commotion amongst the original promoters, for it was evident that some of them, who were looking to be directors, must be passed by. There was, however, no alternative. A president was sought and found of the character described, and several mercantile men of good standing agreed to accept positions on the board when it was constituted. So, then, when the required capital was paid in, a meeting⁵ of shareholders was held, a board and president were elected, the cashier formally appointed, and the bank in July, 1856, opened its doors for business.

The bank being now ready for business something must be said of the men who had to carry it on, both at the head office and the branches.

The president, as has been said, was a gentleman of independent

panies (which did not then exist), amounts now, according to published returns, to over six hundred millions! In fact, the deposits of the Bank of Toronto alone, at the present date, amount to more than those of the whole of the banks of the country put together when it commenced business.

5 At this meeting a very notable statement was made by an old resident of Toronto, the Hon. Henry John Boulton, whose recollection went back to the time of the founding of the Bank of Upper Canada. He said that the charter of that bank provided that fifty thousand pounds currency (\$200,000) must be paid up before commencing business; that the amount had been subscribed, the whole of what is now Ontario warmly supporting the project; but that, when it came to THE PAYING IN OF MONEY it was impossible after the most strenuous exertions EXTENDING OVER THE WHOLE OF UPPER CANADA

means. He had been a bank director before—vice-president, I think, of the Bank of Upper Canada—an exceedingly shrewd and capable man, well esteemed in the community, of a cautious temperament; in fact, one of the kind of men who are supposed to have “a bad opinion of everybody in general.” But he was a courteous gentleman after all, and rendered most valuable service to the bank.

The cashier was from the North of Scotland, and had many friends and connections amongst the circle of Hudson Bay Company officers, many of whom became stockholders through his influence. He was a thoroughly trained banker, had gone through the grades in the Bank of Montreal, and was perfectly familiar with the methods of that bank, both in office management, and in its dealings with customers. He was also familiar with the mode in which its branches were governed. A man of great natural ability, he would no doubt in time, had he remained in the Bank of Montreal, and lived, have risen to the highest position. As it was, it was his influence and that of the president, and the policy they introduced, that enabled the bank to survive the storm which broke over the country with such violence in the following year.

Had the original promoters been in charge of the bank at that time, I am very sure it would have gone down in the general wreck that ensued all over Upper Canada.

I must also say a word with regard to the men who were placed in the branches.

The bank had been established on a principle which sounds rather curious in these days. It being from the first intended to establish branches, a subscription book was placed in the hands of some prominent man in various towns of Upper Canada, with the promise that if he obtained a certain amount of stock, he should be appointed agent of the bank. At that time it was quite customary in Canada (as it is now in the country parts of Scotland) for the agent in charge of a branch bank to carry on a business of his own.

In several towns the requisite amount of stock had been secured; and so it came about that all the branches were at first in charge of men who had no practical knowledge of banking. One was a prominent lawyer, another the sheriff of the district. Another agent was a country gentleman, and a fourth a prominent grain merchant.

to raise more than forty thousand pounds (\$160,000) and that the balance had to be borrowed from the military chest of the Government!

No general Banking Act existed at that time in Canada. Each bank was constituted by a separate act of Parliament. But the general provisions of these acts were alike, and were largely modeled upon the charter of the banks of the State of New York. (These had owed their origin to the careful elaboration of that most able of all American financiers, Alexander Hamilton.) Many of the provisions of these separate acts are now incorporated in the present Banking Act; but in one point there is a fundamental difference; that, namely, which provides for securing the circulation. At that time there was no security for circulation at all, the only regulation about it being that it should not exceed the paid-up capital, plus the gold and silver coin on hand. The last provision was no security for the notes; for the note holders had no better claim to it than the depositors.

All these men were displaced as time went on; and I might as well at this point tell of the experience we had with them. The lawyer was a most respectable man, and speedily gathered a good connection about his branch. But in less than six weeks his returns—as we call the statements sent by branches to the head office—contained so many mistakes that the cashier sent me up one afternoon to examine his books. They were in a perfect *tangle*, and it took me all night, literally, to straighten them out. It was about six o'clock in the morning before the task was finished, and I had to leave at seven to return to town. The agent, of course, was changed at once; but as lawyer, he continued to be our confidential adviser in the town, and rendered most valuable service to the bank.

Our experience with the sheriff was of a somewhat similar character, but on a far more extended scale. He had gathered quite a good business about the office, and his returns and statements were all in order, so far as outward appearances went. But at the end of a year it was deemed desirable to have the branch inspected. The work was undertaken by the president, who took me with him as an accountant to examine the books and cash, while he attended to the discounts and loans. The cash appeared to be all right; but the books did not balance. I spent the day in vainly endeavoring to find a place where a correct balance could be struck, but could find none. It was now evident that a considerable amount of examination was before me, and the president returned home. The upshot of the affair was that it took me six weeks of continuous labor, both in bank hours and long after, before the books could be straightened out, some of them having practically to be rewritten from the beginning. Of course the agent was changed at once, and the branch placed in charge of a young man recently arrived from Scotland. He had a good bank training there, and was altogether one of the cleverest men I ever met in the banking sphere.

In the branch of which the agent was a merchant it was found that large advances were being made to his own firm, a state of things that it was utterly impossible to continue. Business by that time had become very cloudy and difficult everywhere; and it was thought on the whole best to close this branch altogether.

STRAIGHTENING OUT A BRANCH.

The branch placed under the charge of a country gentleman very speedily did a flourishing business; and as he had had some commercial education, there was never anything wrong with his books or cash. He was a man of popular manners, of the "Hail fellow, well-met" style, ready and willing to accommodate borrowers of all sorts and conditions, and speedily did by far the largest business of any of our branches. He made large profits, and for a time it seemed as if we were to be congratulated on having secured so active and enterprising a manager.

But after a year or two, the fears of the cashier were aroused by the

extraordinary number of renewals that were passing through the branch. Correspondence followed, and finally the agent had to resign. I was sent to succeed him, and again another task of straightening out fell to my lot, not of *books* this time, but of *business*. About this I say something in the next chapter. Meantime I dismiss the agent with the remark that, in the process of straightening out, the whole of his profits were absorbed by entries for losses.

The business of the head office under the able management of the cashier rapidly developed. We had naturally a good connection amongst men in the grain, flour and cattle trades; and in addition a few accounts of importing merchants. A share of one of the largest of these also fell to our lot; and was very profitable. So passed the first year, at the end of which we reported good profits to the stockholders, and declared a good dividend.

But at this meeting (July, 1857,) another step was taken. There had been a good deal of friction in the board between the old and new elements. And the latter, who had the balance of power, determined to put an end to it by dropping out one or two of the original promoters. The proposal created immense excitement, and I well remember what a stormy meeting ensued. But the president was firm. It was really his policy, and the uncongenial elements were replaced by others that had very largely to do with the subsequent prosperity of the bank.

REVULSION OF 1857.

Shortly after this the revulsion of 1857^e transpired in Canada, fall-

⁶ The revulsion of 1857 affected the United States more severely than it did Canada, and prostrated business in Western cities particularly. The first stroke, as is well known, came from Ohio in the failure of a Trust Company. Chicago suffered as severely as Toronto, and the value of real estate was almost annihilated.

It was while this period of depression was passing over us, that the cashier called me into his room one day and made a rather remarkable announcement, namely, that his father-in-law, Sir George Simpson, had been speaking to him of a project to transfer the headquarters of the Hudson Bay Co.'s business from Fort Garry (Winnipeg) to St. Paul, Minnesota. In connection with this, Sir George's idea was, to establish a bank; and he had suggested that if the project was carried out, he (the cashier) should take charge of it as manager. In that case, the cashier added he would like me to accompany him there as accountant.

I well remember his saying to me in this conversation, that there was a "small place, a few miles beyond St. Paul," called "The Falls of St. Anthony," that the bank would probably, after a time, open a branch there, and that he would give me charge of it. This conversation was, of course, merely entered upon to give me an opportunity of considering whether I would like to transport myself and family to such a far-away region as Minnesota then was, in case the project was carried out. However, it never was, owing to the death of Sir George Simpson a short time afterwards. And I do not know that the Cashier would have broken up all his connections in Canada and gone to St. Paul even if it had; or whether I would have accompanied him myself. But I have often since thought of THE SMALL PLACE CALLED THE FALLS OF ST. ANTHONY, now the great city of Minneapolis, and wondered what would have been my future, had my lot been cast there.

With Minneapolis I became very familiar in after years when, as General Manager of the Merchants Bank, I had to supervise extensive loans on warehouse receipts we made from time to time there.

ing with terrible severity upon Ontario. The harvest was bad. Money became tight. There was no panic; but a steady bearing down that crushed men with the irresistible force of an iceberg upon an imprisoned ship. The fullest force of the revulsion was felt in Toronto. Our customers began to fail. To the president and cashier came the constantly repeated and weary task of interviewing customers in difficulties. To me fell the laborious making out of long lists of protested bills, and writing of letters requesting payment, or threatening suit. We had a portion of the account of the largest wholesale house in the country. They struggled hard; but failed at last, and nearly all their paper went to protest. It was years before this was all settled up; and this after endless interviews and correspondence; taking security and giving time to some, using short, sharp and decisive measures with others—a wearisome time indeed that dragged on for years, during which the sickening business of making more and more provision for bad and doubtful debts had to be gone through periodically. Every year seemed worse than the last; and when it was going to end, none of us could tell. Harvests were continually bad in Ontario, and so long as that continued there was little hope. In some of the streets of Toronto every other store seemed to be to let; and for myself I almost despaired of what was to become of my growing boys.

Montreal was not nearly so much affected as Toronto. The Grand Trunk Railway had brought about a great diversion of business in its favor, formerly done in Toronto. And there had never been any of the wild speculation in lands that had swept over Upper Canada like an epidemic. But Toronto was struck with a tornado. A prominent Montreal merchant, well known to me, who did a large business with that city, declared to a friend about that time (1858) that there were not three solvent men left in the city—a gross exaggeration of course—but well reflecting the views of one who was a creditor of too many insolvent estates in the Western country.

During all this time the bank held bravely on. The ship was in skilful hands, and they steered her wisely through the long period of troubled waters. Many of our customers, too, held up bravely, and there were some lines of business that were not much affected by the hard times. We managed to make our dividend every year, but that was all. All extra profits were swept remorselessly into the gulf of "Bad and Doubtful Debts," which is the dread of all bankers in such times. But the bank was never in the slightest trouble. Available resources were always sufficient. And so we went on, meeting every day's emergencies as they arose, hoping and waiting for better times.

They came at length in the shape of better harvests. But before that time I had been transferred from the head office to the management of the branch formerly described as under the charge of a country gentleman.

CHAPTER III.

MY EXPERIENCES AS A BRANCH MANAGER.

ORIGIN OF A LOAN—A KIND-HEARTED SHERIFF—AN INSOLVENT TRADER
—VALUE OF SECOND MORTGAGES—A JUDGMENT-PROOF ENDORSER
—APPOINTED CASHIER OF THE BANK OF TORONTO.

THE town to which I was sent was one of the most beautifully situated in Western Canada. In this town and its neighborhood many persons lived, of the class I have spoken of elsewhere; half-gentleman and half man-of-business. The former manager was intimate with this class, and most of them did business with us. There was a very "clannish" feeling amongst them. They visited a good deal together, and endorsed freely for one another. The office was full of transactions of this kind; and it seemed to me for a time as if everybody in the town was on everybody's paper. To get to the bottom of such a maze of entanglements seemed hopeless, but I plodded on, week after week, and month after month, like a man clearing a piece of "bush" or weeding a choked-up garden. My chief anxiety was to avoid pulling up any good plants along with the weeds, for there was much good business in the office. The great difficulty was to find out who was really the responsible party on much of this paper, and who would acknowledge his obligation to *pay* it. In fact, it seemed to be a matter of surprise in the town that the bank should ever want *payment* at all. They thought we ought to be satisfied with the interest, and even this was seldom paid in money.

ORIGIN OF A LOAN.

Let the following be taken as a sample of many of the transactions of the office. A note made by a storekeeper was in the circle of discounts, and after renewing it once or twice, with small payments (all I could get), I asked our customer what was the *origin* of it, as it did not seem to be founded on business? "Oh, well," said he, "the origin of it was this; times have been pretty hard for some time, as you know. One day I was very hard up, and walked over to a neighbor, a storekeeper like myself; 'John,' said I, 'wouldn't you like some money?' 'Well,' he said, 'a man can always do with money.' 'Well, then,' I said, 'you make a note and I will endorse it,' or, 'I will make a note and *you* endorse it.' He consented; and we both signed the note. I brought it to the bank, got it discounted, and we divided the money between us. That was the origin of the note, and we have been carrying it on ever since."

Of such notes the bill case of the office was full. There must have been scores, if not hundreds of them; and the task of interviewing the parties, corresponding with them, in many cases suing and getting judgment against them, was wearisome beyond description. For many of the parties to the notes defended the suits for time, and put us to heavy expense for law costs.

A KIND-HEARTED SHERIFF.

A singular discount account was that carried on by the sheriff (not the gentleman mentioned in the last chapter) a most respectable man, and, though a sheriff, one of the kindest-hearted men I ever knew. In the bad years succeeding 1857 he had had numerous judgments to enforce against farmers in the district. Reluctant to sell out these parties, he had, in many cases, taken their notes, got them discounted at the bank, and so made his returns to the Court, holding the judgment as his own security. On taking charge of the branch, I found the sheriff's account to be as large as a wholesale merchant's who had discounted the notes of his customers. What the sheriff was doing with all these discounts, I could not, at first, imagine, for I had never seen anything of the kind before, nor have I indeed since. However, I insisted upon a liquidation of the account. Fortunately, the times had begun to improve; farmers once more had good crops and were able to pay their indebtedness and release the judgments hanging over them. The sheriff's discounts were therefore all closed out without loss.

AN INSOLVENT TRADER.

Far different, however, was our experience in another case.

A few miles from the town a manufacturing firm was carrying on an extensive business. The members of the firm were of the class described in the last chapter. But instead of half-gentleman and half-man-of-business, they could better be described as three-parts-gentleman and one-part man-of-business. The principal partner was of such aristocratic manners that he was often spoken of in the town as the Duke. He had, however, some little knowledge of business. The other partner was a younger man, a member of a good county family in England, who had come out to Canada, as many others had in that neighborhood, largely to spend his time in fishing and shooting. He had no knowledge of business whatever.

The firm kept their account in the branch, and had large advances. They had also some trade bills, drawn against consignments; their method of business being to ship off on consignment nearly everything they manufactured, drawing against it as much as they were allowed to do, and trust to Providence, that account sales would straighten matters out. Meantime, they had a good-natured banker to deal with, who never enquired particularly what advances were wanted for, or what they rested on. Accordingly, they made up deficiencies by continually obtain-

ing further advances. But account sales seldom showed any balance due; in fact, they were not seldom accompanied by a redrawing for reclamation. The effect of this style of business may be imagined. It was carried on year after year at a loss, the loss showing itself in a constantly increasing advance account at the branch.

It must not be supposed that the head office did not notice what was going on. Head office did, and wrote repeated letters of remonstrance. But the manager was one of the most plausible men that ever lived, and succeeded more than once in quieting the apprehensions of headquarters and persuading them to allow him to go on advancing.

But a crisis came at last. The advances at this branch as a whole at length became serious enough to be a drain upon the resources of the bank in such times as were raging over the country. A stop had to be put to them. I was sent down to make a thorough overhauling of the business, and the manager sent in his resignation.

On examining the affairs of this firm, I became convinced they were insolvent. But they strenuously denied it, alleging that proper valuations would show that they could pay their debts, at any rate. The late manager thought so too. On this assumption the firm submitted an elaborate scheme for the continuance of advances, their business to be under a sort of supervision of the bank meanwhile.

I forwarded this to head office, but stated that I could not recommend it. My comment on their proposal was that I could see no end to it—no prospect of ever paying off advances by that process, or even of reducing them. There was certainly a very heavy loss before us if they stopped. But I was convinced that to let them go on would make matters worse. It was not the sort of account to be “nursed.” The foundation of any rational nursing process is confidence in the business ability of the men; and of this I had none. They stopped therefore. We were practically their only creditors, and made the best of their assets. But the result was a loss sufficiently large to wipe out not only all the profits we had made out of their account, but a large part of the profits made out of all the rest of the business from the opening of the branch, a never-to-be-forgotten lesson of the consequences of a good-natured and so-called enterprising style of conducting bank business.

Amongst other advances the branch I found some of considerable amount, that had been made on account of a local railway.⁷ These were

⁷ In connection with this railway a remarkable circumstance subsequently transpired. After I left the branch for Toronto, a cargo of rails for this road was landed on the steamboat wharf. But the railway had no money to pay for them, and there was no good-natured manager there then to advance them money. The rails, therefore, lay on the wharf year after year, with charges accumulating. But when I assumed charge of the Merchants' Bank in Montreal, I came across these very rails again. They were held as security by the bank under a letter of credit granted to a customer who had failed. The bank had taken possession. The local railway company by that time had entirely collapsed, and there was no resource but to sell them through a broker to the highest bidder; of course, at a considerable loss.

all in the shape of notes bearing the names of various people in the town. But as we had the same names in their own accounts, or in the accounts of other persons; sometimes as promisors, sometimes as endorsers, it was a matter of infinite difficulty to disentangle these railway advances from those made to customers for their own business. However, the task was accomplished at last, and a certain number of persons agreed to raise the money to liquidate the account; which fortunately they were able to do. And this I must say, that they were all "honorable men," not in Mark Antony's sense, but in reality.

VALUE OF SECOND MORTGAGES.

While at this branch, I had some experiences which stood me in good stead in after years. Let me relate some of them. One of these was an object lesson as to *Second Mortgages*. A customer was carrying on a saw-milling business. The account had worked unsatisfactorily, and we had obtained a second mortgage on his property. I was assured that there was a substantial value in it after providing for the first. The advances were carried on for a time with some expectation that our security would eventually bring us out. But the account continued unsatisfactory; moreover, I had made up my mind that our customer was not honest. To realize our security it was necessary to pay off the first mortgage. This we did, adding thus to our advances.

But when we brought the property to sale, we could scarcely get a bid at any price. It was withdrawn. Put up again, the highest bid we got was less than the sum we had paid to free the property. By this time I had become sick of the whole business of winding up the man's estate, and concluded to let the saw-mill go.

It turned out that we would have been better off if we had taken no security at all.

A JUDGMENT-PROOF ENDORSER.

Another lesson. The man above named, I have said, was dishonest. He committed some flagrant act of fraud for which we determined to prosecute him. The case was as clear as daylight. His counsel, a very clever local lawyer, knowing he had no chance if he dwelt on the merits of the case, spent his strength in appealing to the jury to protect an unfortunate neighbor against the rapacity and tyranny of this big moneyed corporation. When I heard all this, I felt sure how it would go. And go it did against us. The jury found the man not guilty, and we had the pleasure of paying heavy costs.

One of this man's endorsers was a wealthy farmer in an adjoining county. He was represented to be abundantly good for the amount he endorsed; so I renewed the paper several times, giving attention to getting the weaker notes in the account paid. At length, however, I determined to bring this endorser "to book." Getting no answer to my letters, I one day went over to his farm, a considerable distance off;

found him, a man well on in years, sitting comfortably in the living room of the farm-house, which was a very good one. The farm was one of the sort that abounds in that part of Ontario, clean, clear, well fenced, well cultivated, worth a good deal of money. He received me very coolly, and in answer to my query when he was going to take up the note, answered that he was not going to take it up at all. On my referring to this fine farm of his,—he said it was not his at all. *He had made it over to his sons some time ago, together with all there was upon it, in consideration of a maintenance for life.*

This was a revelation, indeed. And on our solicitor making enquiry at the Registry office of the county, he found it was true. Moreover, on my asking whether such a conveyance could not be set aside, considering his endorsement; he gave the opinion that it could not, the consideration being sufficient. Our security, therefore, turned out to be worth nothing. This case made a deep impression on me in relation to the value to be attached to *endorsements* in plain figures.

By the time that two years had elapsed, I had got the business into a fairly satisfactory shape. I had been sent to get payment of a number of the discount accounts and had done it; making myself during the process very unpopular with a large section of the community. I had tried to be reasonably courteous during the whole of this proceeding, considering the work to be done, but at times my patience was rather tried. On one occasion a money-lender whom we dealt with, on my refusing to renew some paper for him, told me that *we might collect it at our leisure!* "Very good," said I; "my leisure is *twenty-four hours*. If you do not pay by this time to-morrow, you will have to look out." He did pay up, for he knew very well he could not afford to be sued.

APPOINTED CASHIER OF THE BANK OF TORONTO.

After clearing out the rubbish, there was a considerable residuum of satisfactory business at the branch; and I settled down to make the best of it, quite expecting to spend the rest of my days there. For of promotion at that time there appeared little chance. The cashier was a younger man than myself, with apparently a long life before him. The manager of the Montreal Branch, (for we had by this time opened in Montreal, and his position was a superior one to mine) was also a younger man. To be transferred to any other branch than Montreal would be no promotion at all. The way, therefore, seemed blocked. However, we were reasonably comfortable at home; and I remember once making a calculation, that in the quiet way in which we were living I could save enough *in twenty years*, at any rate, to "keep the wolf from the door" for the remainder of my life.

But how little can we see the progress of events! Within three months of my making this calculation a circumstance transpired which influenced my whole future. Our much esteemed President died suddenly; respected by all who had ever known him. It was then con-

cluded to advance the cashier to the office of president; and one day, (it was the day before Christmas, 1864.) I learned to my astonishment that I was appointed *cashier*. The new president desired me to come up to Toronto and confer with him about business. I went up. He informed me that he wished me to assume the position at once. I therefore handed over the business of the branch to my successor, who came down for the purpose. And on leaving, in spite of the apparent unpopularity I had incurred, a handsome presentation of plate was made to me by the customers, which is on my sideboard at this day.

Thus ended my experience as a Branch Manager, in the course of which I learned lessons that were invaluable to me afterwards; mostly lessons of what *not* to do; which I could not have learned in any way except by fulfilling the task of steering the little vessel amongst such rocks and quicksands as I met with in this part of my banking career.

CHAPTER IV.

EXPERIENCES IN HEAD OFFICE MANAGEMENT IN TORONTO.

ASSUMPTION OF NEW DUTIES—CIVIL WAR IN THE UNITED STATES—
PREMIUM ON GOLD—TROUBLES OF THE BANK OF UPPER CANADA—
STOPPAGE OF THE COMMERCIAL BANK—ORGANIZATION OF NEW
BANKS—AN UNFORTUNATE SPECULATION—RETIREMENT FROM
BANKING.

MY appointment to the office of Cashier of the Bank of Toronto, opened out apparently a far wider sphere of action than ever I supposed would fall to my lot. For I was now removed from a branch in a small town, with its small circle of interests and activities, to the Head Office of a Bank in a large and important city, which had by this time begun to recover from the depression spoken of in a former chapter. Crops were abundant once more; that was the root of the whole business, as it largely is to-day. Storekeepers could buy freely from wholesale houses; and these, in their turn, could do business with a reasonable prospect of getting their accounts paid. And the bank itself by this time had passed safely through a process of purgation somewhat similar, though less severe, than that described in the last chapter. Its business, on the whole, was in a satisfactory position, and it was making steady progress. For myself, it was an immense satisfaction to get back to a sphere in which the higher descriptions of banking were carried on, namely, the accounts of wholesale importers, large dealers in grain, lumber and timber, together with those of millers, distillers, and exporters generally. The Branch in Montreal was doing a large and flourishing business, and as all the branches were supervised and governed from Toronto, I had the opportunity of becoming practically acquainted with a much wider sphere of operations than I had known before.

It was some years, however, before I had the responsibility of active management and control. The president, though he had acquired a higher title, was still performing the same duties, the consequence being that my real position was rather that of assistant than of actual cashier.⁸

The change was not agreeable at first, for I had had real management and control when manager of the branch. However, all came round in time; as the proverb says, "all things come to those that wait."

⁸ The Canadian cashier of those days was the GENERAL MANAGER of those; the only difference probably being that when the chief executive officer was called cashier, the president was expected to give more attention to the business of the bank than he commonly does now.

EFFECTS OF THE WAR IN THE UNITED STATES—PREMIUM ON GOLD.

My narrative must now go back a little.

While branch manager I had once been unexpectedly summoned to take the cashier's duties whilst he went over to Scotland for a holiday.

A few months before this, the war between the North and South had broken out, and Gold had shown signs of going to a premium. This was a serious matter for us; as we, like other Canadian bankers, could not avoid keeping considerable balances of money in New York, which, of course, formed part of our reserve cash. The premium on gold, therefore, whatever it was, would mean a loss of that amount, in case we needed the money. The cashier, however, on going away was not much disturbed about this. Like most other persons in Canada and the North, he supposed that the war would soon be over, and American currency revert to its natural position. Gold might go to four or five per cent. premium; but that, he thought, would be the limit of it. And it could not last long.

Amongst the directions he gave me for management in his absence, one was that I must not disturb myself about this premium on gold, but let the balance in New York go on accumulating, *even if the premium rose to ten per cent.*⁹ It was under these circumstances I took charge.

⁹ In view of the direction given me by the cashier not to be disturbed even if gold rose to 110, it is interesting to note what really was its course.

In my banking diary, I kept a note of it, inasmuch as all the transactions of our lumber customers, and of a large part of our grain customers, involved the turning of American currency into gold. The price, therefore, was a matter of daily interest; and so were the events that influenced it. A gold exchange was opened in New York; operations in it soon became heavy, and not only operations but speculations, as we had good reason afterwards to know, for one of our officers became entangled in them. Every operation of the war was watched with the keenest interest in Wall Street and speculated upon. When the North suffered a reverse, gold went up; if things were going against the South, gold went down; and so on, and so on, all through till the end. An attempt was made by Congress in 1864 to stop this speculation, and an act was passed making it ILLEGAL to deal in gold. This was on the 22d of June. The only effect of this was to send gold up with a bound. Within ten days it advanced FIFTY PER CENT.

Here are a few of the figures showing the price of gold after we decided to realize half our currency balance. This was in July, 1862, and gold was then at 116. In October it was 137, in March 172. After this there were heavy fluctuations until the battle of Gettysburg, and the taking of Vicksburg by General Grant on the same day, the fourth of July, 1863. This sent the price down to 126. But it rose again, until in October it was 158, at about which figure it continued with fluctuations, until the April following. It was then 170. In May, 1864, it rose to 193, in June to 200. Then, the act making it illegal to deal in gold at all was passed. Within ten days afterwards, it was 280, and on the 11th of July it touched the highest point during the war, namely 283. After that there were heavy fluctuations. In September it was down to 190, in November up to 257. But all this time General Grant was making his way through those terrible battles of the Wilderness, in spite of the stubborn resistance of General Lee, until it became apparent that he would soon be able to plant his forces to the south of Richmond. So in the month of January, 1865, gold dropped to 198, and in March to 148. Richmond was taken on the 2d of April—when the price was 146. General Lee surrendered on the 8th, but this event had evidently been

The premium crept up quietly and steadily week by week. On the 31st of May gold was quoted at 104. On the 30th of June it was 109½. By the 31st of July it was 116. The president was with me all this time, and we conferred a good deal about the matter. He, however, was of the same opinion as the cashier; and thought we need not trouble ourselves much about it. I was, however, seriously troubled myself, for as time went on, it became necessary, as a matter of finance, that we should avail ourselves somewhat of our balance in New York. But, to do this, we must turn currency into gold, at a heavy loss. The price of gold moreover was rising every week, and I could see no reason why it should not go on rising indefinitely as long as the war lasted.

I therefore obtained permission from the Board to go down to New York and investigate the matter on the spot. The problem was, whether there was any natural *limit* to this rise in gold, and consequent depreciation of our American funds. If the war went on, was not gold likely to continue to rise, and our balance in New York to be worth less and less? I concluded to consult two persons on the subject. One was naturally the able and experienced cashier of the bank where we kept our account, Mr. H. F. Vail, of the Bank of Commerce; the other was Mr. Charles T. Smithers, who had then left the Bank of Montreal and was in business for himself as a private banker. I well remember Mr. Vail's answer. He said, "You want to know my idea as to the course of gold; and whether the premium is likely to increase, and what it may increase to if the war goes on? I might answer, '*Go and consult our janitor*;' he can give you as good an opinion as I can." But the fact is, speaking seriously, I am as much in the dark as you are. As for us New York bankers, you know we are going to stand by the Government; we have subscribed amongst us fifty millions to help to carry on the war; and very sure I am that we will stand by the Government till the end. All

discounted, for gold only fell to 145. A week after this, President Lincoln was assassinated, which sent gold up to 158. This was the highest point, with a momentary exception, that gold touched after the war was over. But many long years were to elapse before it touched par, and a quotation or two of its subsequent course may be interesting.

In 1866 it rose again to 155. In 1868 it ranged from 135 to 140. In September, 1869, the terrible "Black Friday" occurred, when, in one day, the transactions in gold amounted to FOUR HUNDRED MILLIONS; THE PRICE OPENING AT 150, RISING AT NOON TO 165, when the Government telegraphed to sell FOUR MILLIONS, and the price dropped to 125 in five minutes. After this, year after year, the price seldom varied more than seven per cent., dropping to 168½ in December, 1871, and rising to 115½ in September, 1872. And thus it went on, rising and falling, month by month, and year by year, until the end; heavy speculations going on all the time as the course of political or national events were adverse or otherwise. Thus even as late as 1875 the price went up to 117½. This, however, was the last spasm in the long and exciting course of a depreciated currency. In the Spring of 1877, gold had fallen to 106, and thence it steadily bore down until specie payments were once more resumed.

Thus ended one of the most extraordinary episodes in modern finance, during the whole of which Canada remained firm on a gold basis. How these fluctuations affected the bank into whose service I subsequently entered is told in the next chapter.

that is perfectly clear; but what the course of gold will be, no mortal men can tell." While I was speaking with Mr. Vail, General Anderson, who had so well defended Fort Sumter, came in, and Mr. Vail introduced me to him. I appreciated this, for I had sympathized with the North from the beginning. I next went over to Mr. Smithers. I could talk freely with him, as he was a Canadian, and could look at the matter from *our* point of view. My principal question to him was not so much what he thought gold might rise to, but whether there was *any limit to the rise at all?* We both knew very well, there *was* such a limit in the case of sterling exchange; that is, when dealt with on a gold basis. Was there any such limit in the case of gold?

He said he could see no such limit.

I returned to Toronto, communicated what I had heard in New York, and strongly recommended that we should convert a considerable part of our balance into gold, for fear of worse happening. It would cost us a good deal of money, but there was no sign of the war abating, but every prospect of its going on for some time; and if the war went on, it was certain that gold would continue to rise. I think one or two members of the board considered me rather presumptuous in giving them advice on the subject, for I was only a branch manager, of second rank, in temporary charge there. The president, I think, agreed with me, and after a thorough discussion it was determined to convert one-half of our currency balance into gold, and leave the rest to the course of events. It cost us a large amount of money, but at any rate, we had got a considerable sum safe "out of the fire" and available, if we wanted it. We placed the gold to the credit of our Gold Account; for gold accounts had then become common between Canadian banks and New York, and our dealings thereafter with the Bank of Commerce were in this gold account. The currency balance remaining, we held on to, until the resumption of specie payments brought matters round many long years afterward.

But to resume:

My position at head office being a subordinate one, I continued discharging this kind of duty for several years. The Bank of Toronto was prospering, and no events worth recording transpired until the long sickness and death of the cashier placed upon me a much larger share of actual management than before.

His death indeed was a serious loss. He occupied by his marriage a very high social position; he was a thoroughly trained banker, energetic in character, rather sanguine in temperament; more ready to undertake risks than I ever was, but with a most remarkable faculty of making the best of doubtful and difficult accounts. I remember saying to the president afterwards, that I could not pretend to such ability as the late cashier had of *getting out* of trouble; all I could lay claim to, possibly, was the faculty of *not getting into it*. When he had passed away, I felt like a son who had lost a father; for though he was younger than I in years, I always looked upon him as far beyond me in banking ability.

To succeed him as president, the board elected the senior partner of one of the wealthiest firms in the country, a gentleman of years and large business experience, with a remarkably solid judgment of men and things. The presidency has continued in his family with advantage ever since. He had long been a director of the Bank of Upper Canada, and used to tell curious stories of the way things were managed there.¹⁰ (I one day said to the president, from what I knew otherwise, as well as what he told me, that a safe rule for us to follow in guiding the Bank of Toronto would be to find out what the Bank of Upper Canada would do, and then to do exactly the opposite.) The vice-president was the business partner of the president, and like him, though much younger in years, was a man of singular ability, information and experience, thoroughly in touch with the business affairs of the time, especially with all the branches of the grain and milling trades. These two gentlemen kept close touch with the affairs of the bank, and along with another director, a very wealthy capitalist, who used to drop in nearly every day, one of the shrewdest men I ever knew, formed what might be called an "inner circle" of the board.

With these gentlemen about me day by day, I spent the remaining twelve years of my life as Cashier of the Bank of Toronto, in actual management.

TROUBLES OF THE BANK OF UPPER CANADA.

During these years several very notable events happened, by far the most important of which was the long-continued contest to preserve bank circulation. This matter, however, passed through so many phases that I have thought it needful to devote the whole of the next chapter to it. Of other important events, the first was the failure of the Bank of Upper Canada. Of this bank I have already spoken. It had, at one time, a very high reputation, and its credit was quite equal to that of the Bank of Montreal. For many years the account of the Government was kept with it. During several prosperous years preceding the Crimean War, it had made very large profits. But banking was little understood in Upper Canada at that time, and it made the egregious mistake of dividing nearly the whole of its surplus amongst its stockholders. And for years there had been accumulating in its books masses of loans, which rested on nothing but real estate, much of it of wretchedly poor quality. This gave rise to a perpetual series of renewals. Its internal discipline was bad, and its government of branches notoriously weak. A

¹⁰ One of these is worth recording. The board of directors of that institution was largely composed of professional men who knew nothing practically about business. One of the number had been an admiral in the British navy. A matter of weight and importance coming before the board on one occasion, this good gentleman, after it had been discussed for a time, burst out as follows: "WELL, GENTLEMEN, I KNOW HOW TO SAIL A SHIP, BUT I'LL BE HANGED IF I KNOW ANYTHING ABOUT SUCH MATTERS AS THESE!"

short time after I assumed charge in Toronto, on its sending an inspector to a certain branch, the manager set him at defiance, refusing to receive him, and locked the door of the safe against him. After the revulsion of 1857 the Government account was removed. This seriously affected the prestige of the bank, and injured its credit. It was known to be heavily in debt to its agents in London; and they, at length insisted on a change of management. But the bank was too far gone to be restored to soundness by any change whatever; so after a few years of struggle, it closed its doors. The bankers of the country were not surprised at this; in fact, they had been preparing for it for months back. But it created a good deal of excitement amongst the people of Toronto, and the farmers over a wide district of Upper Canada. Nearly everybody that had notes at all had some of this bank in their possession. There was no security for bank notes at that time, and a wave of distrust passed over the community respecting the notes of all the banks in Upper Canada. Of these the Bank of Toronto had become one of the most prominent, and quite a heavy run by holders of small notes took place.

Our counter was thronged all day long, for several days, by people presenting notes for redemption; mostly small notes. We met this in the usual way by piling up gold on the counter, and detailing a special teller to attend to the applicants. Many of these, when they saw the piles of gold, went away satisfied; others presented their notes, and got quickly paid. The disturbance abated in a day or two; no deposits were withdrawn, and the whole amount of gold we paid out, was far less than many of our customers could have drawn out by a single check. The whole affair, indeed, with all its bustle and apparent excitement, was a mere "tempest in a teapot."

The affairs of the defunct bank proved to be in very bad shape. The whole capital was lost, and in addition a good deal of loss was suffered by depositors and noteholders. A certain portion of the last fell upon the banks, and became the ground work of an agitation for the securing of the currency, the consequences of which survive to this day.¹¹

STOPPAGE OF THE COMMERCIAL BANK.

The next affair to which I will revert was the stoppage of the Commercial Bank of Canada. This institution was in far better shape than the foregoing; for on being wound up it paid its noteholders and de-

¹¹ Let me relieve the reader's attention to these monetary details by another story of the humors of the time, which was told me by our good president (i. e., of the Bank of Toronto), speaking from personal knowledge.

The cashier of the Bank of Upper Canada, before the change of management, had been in office from its very foundation, and was well known all over the country. He lived in great style, in a magnificent house, and drove to business in a carriage and pair. But he was heavily in debt to the bank. He was very crusty to outsiders; but "fellow, well-met" to his familiars. One of these, a well-known doctor in the city, said to him one day when his equipage was at the bank door, "TOM,—WHY DON'T YOU SELL YOUR CARRIAGE AND HORSES, AND PAY YOUR DEBTS?"

positors in full, and returned one-third of the capital to its stockholders. But it had unfortunately got itself entangled in heavy advances to the Detroit and Milwaukee Railway Company, and after a verdict had been given against it, at the end of a protracted and costly litigation, its credit was so impaired that a drain of deposits set in, which at length compelled it to close its doors. This event created immense excitement; far exceeding that of the former occasion. It developed, indeed, into a complete panic. For one or two days our counter in Toronto was besieged as before, but by a more excitable crowd, and what was far more serious, a considerable drain of deposits set in. Any one of these would take more out of the bank in a minute than the whole excited crowd of noteholders would in an hour. While the panic prevailed, there was great danger of one or two other banks closing their doors. We were in a strong position ourselves, and determined to make common cause with these weaker banks, as we knew they were sound. We therefore kept supplying them with gold, as these exciting days passed on; ordering up large supplies by special messenger from Montreal, night after night. A large part of the gold we paid away went into the Bank of Montreal, as did also, most of the money withdrawn from the other banks. The Finance Minister in Ottawa was appealed to, but he refused to intervene; after which a telegram arrived from some friends of the banking interest in Montreal, advising the Toronto banks to suspend specie payments. A consultation of bank directors was held in the midst of the excitement, to consider this proposal. I was not present at the consultation, being only a comparatively young banker, but when informed by the president of what was going on, I protested and remonstrated in the strongest manner against such a step; and declared that rather than do that, we ought to pay out the last dollar of gold we had. The next day was Sunday, which afforded a breathing time; and on Monday morning, to our great relief, we learned that the Premier, Sir John Macdonald, overriding the advice of his Finance Minister, had determined to intervene, and put a stop to the panic. He gave orders that every Custom House and Post Office in Ontario should be telegraphed to, directing them to take the notes of all the banks whose doors were open. On this becoming known, the panic ceased at once; and, politics apart, I have always considered that the country owed a deep debt of gratitude to Sir John for his conduct on that occasion.

This excitement over, matters began to pursue their usual course. The country was prosperous; and business on the whole, sound. The banks to whom we had loaned the gold, soon repaid it, and our business went on as quietly as ever. As to the Commercial Bank, after some excited meetings of stockholders, proposals were made by two of the Montreal banks for the purchase of its whole assets. A sort of rivalry arose between the Bank of Montreal and the Merchants' Bank on this occasion. One bid after another was made, and finally the offer of the Merchants' Bank was accepted. This offer was to assume all the liabilities of the

Commercial Bank, and to pay the stockholders 33 1-3 per cent. of their shares in the stock of the Merchants' Bank. It would have been far better for the stockholders of the Commercial Bank to have taken the offer of the Bank of Montreal; and I believe it would have been better for the Merchants' Bank to have had nothing to do with it. For subsequent inside experience led me to the conclusion that the Merchants' Bank lost a good deal of money by it. But the purchase enabled that bank, which then had no branches at all, to establish itself with a business ready-made to its hand, in numbers of towns and cities in Ontario; and laid the foundation of that widely extended business with which I had to deal in subsequent years. The liquidation of the old assets of the Commercial Bank caused a prodigious amount of labor to fall upon the officers of the Merchants' Bank; and along with a considerable accession of good business it also acquired a large amount that turned out doubtful and bad, partly it may be said, by reason of the "hard times" that subsequently followed.

ORGANIZATION OF NEW BANKS.

During the period of my service in Toronto, and while gold was at a premium, the General Manager of the Bank of Montreal, for reasons of *haute finance*, determined on a policy of contraction of discounts among all its Ontario offices. The bank transferred the money to New York, and made large profits out of it. The pressure was severely felt for a time, but it resulted in the offering to the Bank of Toronto of a large amount of new business. Most of the accounts offered were accepted; and we thereby took our share in relieving the pressure upon the commercial community. This policy had, however, very important consequences, such as could scarcely have been foreseen.

The Bank of Montreal, in its Toronto office, was under the local direction of a very prominent member of the mercantile community. When a policy of contraction was determined upon and continued, he conceived the idea of obtaining a Charter for a *new bank*. He had no difficulty in carrying out the idea, as he was influential in Parliament, as well as in banking. The charter was obtained, the stock subscribed, an influential board of directors formed, and thus was launched into being THE CANADIAN BANK OF COMMERCE. This bank in the course of a few years became the largest bank in Ontario in respect to both capital and business. It also absorbed after a time one of the older banks in Ontario, the Gore Bank in Hamilton. During the last few years it has still further enlarged its operations by taking over the Bank of British Columbia with its branches on the Pacific coast from Victoria to San Francisco, and also one of the banks of the Maritime Provinces with its headquarters in Halifax, and branches extending all over Nova Scotia. It had not been long established when it opened an office in London, England, and also in New York. The London office ceased to do business for some years, but as the Bank of British Columbia had its

headquarters in London, the Bank of Commerce assumed its business there, and has ever since been represented in the Metropolis.

After some time it was rumored that the vice-president of the Bank of Commerce was also about to apply to Parliament for a charter, and establish another bank. He was also a man of wealth and position, and easily obtained a charter, and subscriptions of a sufficient amount. A body of influential men gathered around him, and thus was launched the DOMINION BANK, well known to be one of the most successful and prosperous of Canadian banking institutions.

Another director of the Bank of Commerce followed upon the same path but in a somewhat different manner. There had long existed in St. Catharines, a prosperous town in the Niagara District of Ontario, a bank called the Niagara District Bank. It had been on the whole well managed. Its directors were influential men. It had branches in the western peninsula of Ontario. Some conferences and consultations took place between its directors and certain men of wealth in Toronto, which resulted in the establishment of the IMPERIAL BANK, with its headquarters in that city. This bank absorbed the business and branches of the Niagara District Bank; and the St. Catharines office, after being the head office of the former bank, became a branch of the Imperial Bank. This bank also has had a career of uninterrupted prosperity, and after paying continuously good dividends has accumulated, like the last, a rest nearly equal to its capital. There thus sprang out of this policy of contraction on the part of the Bank of Montreal three of the most prosperous and flourishing of the banks of Canada.

A similar career of success, however, did not attend another institution established about the same time. The Federal Bank, after a checkered career, finally ceased to exist, but wound up its affairs without loss. Most of its business was taken over by a new organization called the TRADER'S BANK which has been doing a quiet business for many years. Another of the banks which obtained charters at the time when charters were so readily granted by Parliament, was originally named the St. Lawrence Bank. It was not, however, well managed in the first instance, and was nearly coming to a stop. It was then taken up by an able officer of another bank; a man who had been well trained in banking; and under another name, that of the STANDARD, it has had a prosperous career ever since.

I was cashier of the Bank of Toronto, while all these changes were going on, quietly pursuing my own business and maintaining friendly relations with the managers and directors of these institutions.

UNFORTUNATE SPECULATIONS OF A MANAGER.

During the time that the war before referred to was going on, we had a very unpleasant experience with one of our managers, who had unfortu-

nately become connected with a number of Southern gentlemen, and had imbibed their views as to the course of gold. They were fully persuaded that gold would rise to a far higher figure than it had ever attained. He was induced to join in a little speculation; and as is often the case, this was the beginning of a troublous course which finally ended in his ruin. Speculations went on increasing. A broker was concerned in them also. Large advances came to be made, but they were so carried on as to be concealed for a time. At length, however, the great events which brought the war to a close took place. Gold rapidly fell. It soon became evident that the game was up. The concealment could be carried on no longer. It fell to my lot to handle this unpleasant business, and I proceeded to Montreal for the purpose. Investigation speedily revealed the state of matters. This was followed by the manager's resignation and withdrawal from the service. I remained in Montreal some time to attend to the winding up of the affair, taking actual charge of the branch, until a new manager was appointed, becoming thereby very familiar with the business of Montreal and acquiring in experience in exchange operations such as was not to be had in Toronto.

RETIREMENT FROM BANKING.

After the agitation to preserve the circulation of the bank (see next chapter), I felt a great reaction setting in. And a conviction grew upon me that I ought in the course of a few years to devote the rest of my life to other than monetary pursuits. I had been active for years in the work of the Church to which I belonged, and also in the work of the Young Men's Christian Association, and looked forward to a time when the burden of the bank could be laid down and my whole time given to such work as this. It was many years before the opportunity came, but it did come, or seemed to come, some years afterwards. In the year 1874 a period of depression set in over the financial world, and the full force of it was felt in Canada. The lumber and timber interests were affected most severely; and the depression in this line continued year after year, as is common in a trade where business moves in cycles. Still the business of the bank went on with a fair amount of prosperity. The average of losses increased, but with the vigilance and co-operation of a good staff of managers, we were able to prevent anything really serious developing. The times, however, were depressing, and the pressure on my own mind was constantly increasing. At length about the middle of 1876 I conceived that I might honorably lay the burden down by the end of the year. In fact, I began to feel that I was getting on in years, and ought to relinquish the charge of the bank to a younger man. At that time, so far as personal feeling goes, it seemed to me that I was older than I was when I retired from the Merchants' Bank twenty-five years afterwards.

The board allowed me to retire when they saw that my mind was

made up, though I believe they thought I would have done wisely to stick to my own business.

But they presented me with a service of plate, on which some words were engraved, which I have always esteemed tenfold more than the silver itself, valuable though it was.

After speaking of the services I had rendered to the bank, during my tenure of office, they went on to say that the presentation was made:

"To give them also the opportunity of referring to the prominent and active part he has taken in the legislation respecting Banking, and to record their opinion that to him the Banks owe several of their most valuable privileges."

The last words are perhaps too flattering, inasmuch as others took a very influential part in the work; but there was undoubtedly, at one time, a crisis, as is related in the next chapter, when the action I took probably saved the whole position.

CHAPTER V.

NEGOTIATIONS WITH THE GOVERNMENT RESPECTING CIRCULATION.

CIRCUMSTANCES OF THE COUNTRY—OPPOSITION TO GOVERNMENT PAPER MONEY—PROPOSAL TO SECURE BANK NOTES BY GOVERNMENT BONDS—SPECIFIC OBJECTIONS—NEW LAW RESPECTING CIRCULATION—GREAT SAFETY OF THE BANK NOTES.

THIS experience is related in rather full detail, as it concerns the development of that Canadian system of circulation which is admitted to be one of the best in the world. It also traces the origin of the present Canadian Banking Act.

By far the most important events that transpired during the period referred to in the last chapter were negotiations with the Government respecting the circulation of the banks.

It has already been stated that a certain loss had fallen upon all the holders of Bank of Upper Canada notes, at the time of its failure. The loss to any individual or firm was of no great importance, but it was sufficient to create a desire for a better secured currency. The Finance Minister of the day, Mr. Galt, afterwards Sir Alexander Galt and High Commissioner of Canada to England, had long held, as a matter of theory, that all circulating notes of any country should be issued by the Government. This theory was held by a certain school of political economists, of whom he was one, and the failure of the Upper Canada Bank seemed to afford a favorable opportunity for putting the theory into practice. He matured, therefore, an elaborate scheme for the substitution of Government notes for the circulating notes of the banks of Canada. This was before the Confederation of the Provinces.

The Canada of that time consisted simply of the Provinces of Ontario and Quebec, but then called Upper and Lower Canada. Mr. Galt's scheme was approved by his colleagues, but before bringing in a bill to give it effect, he consulted various members of the banking interest with regard to it.

CIRCUMSTANCES OF THE COUNTRY.

To enable the reader to understand the bearing of such a measure on the finances of the Government, the circumstances of the country will need to be considered. Canada, at that time (about 1865) was still feeling the effect of the terrible revulsion of 1857. I had always thought that it would take from eight to ten years for the country to recover

from it. During this period the finances of the Government were in a really deplorable condition. The Finance Minister had to report deficits year after year *ad nauseam*. The account of the Government with its London agents was heavily overdrawn; and there can still be read in blue books of the time letters from the Glyn and Barings, which are calculated to make patriotic ears tingle with shame. Our Government was addressed by its London agents in exactly the same terms which a bank employs to an impecunious trader when demanding payment of overdue paper. Of course, they refused all further advances; they reported also that it was practically impossible to place any more bonds of Canada upon the market. Though they were six per cent. bonds, to attempt to float more would send them to a heavy discount, a contingency which no Finance Minister would dare to face. Under these circumstances it was not surprising that the account of the Government with its Canadian bankers was overdrawn too. The recurring deficits of the finances were the occasion of increased taxation, but it was impossible to load the country more heavily in this way in its then condition. Continued deficits were therefore largely reflected in the steadily increasing debt to the Bank of Montreal. By the time the Finance Minister's scheme was matured, this bank stood in the same position to the Government of Canada that the Bank of England stood to the Government of England. Its whole capital, or thereabouts, was lent to the Government; not a bad position to be in, certainly, in one respect; and the authorities of the bank by which, practically, must be understood Mr. King, the General Manager, knew well how to make the most of it to their own advantage. But the Government still needed more money; and matters had reached a point when it was not convenient for the bank to increase its advances. Such were the conditions prevailing at the time when the scheme was submitted by which bank circulation would be abolished, and replaced by the notes of the Government.

OPPOSITION TO GOVERNMENT PAPER MONEY.

The Bank of Montreal gave in its adhesion at once, as might be expected. The adoption of the scheme would not necessitate any material change in the course of its business, and the very able financier who was at its head, saw, in its working, large opportunities of increasing the profits of the bank. But it was far otherwise with the rest of the banks, and particularly with those carrying on the business of Upper Canada. I gave careful study to the scheme as it would affect the Bank of Toronto, and became convinced that to adopt it would compel us to make such a curtailment of our discounts, as would cause serious disturbance and embarrassment to the whole circle of our customers. And not only this; it would seriously cripple our power of assisting in that movement of the crops which was then, even more than now, the foundation of so much of the business of Canada. The Bank of Toronto

had then, I think, a larger share of the grain and lumber business of Ontario, than any other bank; and I was filled with alarm at the consequences of such an Act to us, if adopted by Parliament. Having become thus convinced, I obtained permission from the board to go down to Ottawa to confer with the Finance Minister on the subject. Mr. Galt received me very courteously, for he well knew the position of the bank I represented. I carefully abstained from any discussion of the merits of a Government currency, *per se*; well knowing that in a matter of that kind, I should be no match for a man of Mr. Galt's capacity. He was, perhaps, the most brilliant of our many able Finance Ministers; and almost the equal of Gladstone in the ability with which he discussed financial questions in the House. I, therefore, confined myself purely to a statement of the effect of this measure upon ourselves, and upon all the banks who were doing the business of the agricultural and lumbering interests of the country. I pointed out that the measure would also necessitate a heavy curtailment of discounts to the mercantile community of Upper Canada; that such curtailment would inevitably bring about embarrassments and failures; that the country was only just recovering from the shock of the revulsion of 1857 and could not bear any further disturbance. I further said that quite apart from the immediate effect of the measure, it would cripple for all time the power of the banks to provide the means of moving the crops in the fall, and carrying lumbering operations through the winter.

This was the general strain of my side of the conversations which ensued. I found, however, that he was full of the idea of obtaining more money for carrying on the business of the Government; and undoubtedly the measure he proposed would have effected that end, at least. So I spent much time in the library of the House of Commons endeavoring to think out some plan for relieving the Government without damaging the banks. I was a young manager at that time, and found it a very difficult task; in fact, it was beyond me. But one thing I did understand, viz., the bearing of his scheme upon the business of the country. That it would inflict incalculable damage, I was certain. It was easy to reply that the Bank of Montreal was ready to fall in with the scheme; but the position of the Bank of Montreal was as different from our own as that of the Bank of England from the position of an ordinary London bank.

The final point to which I directed our conversation was a strong appeal to make the measure *optional* and not compulsory.

I have no doubt that other Western bankers brought influence to bear on Mr. Galt (though I never met any of them in Ottawa), for when the bill was brought before Parliament we found to our great satisfaction, that this provision was expressly included.

The only bank that fell in with the measure was the Bank of Montreal. Very favorable terms were offered, and its circulation was relinquished. For several years, it issued Government notes exclusively.

The bill provided for considerable reserves of gold to be kept against these notes, and Commissioners were appointed, of whom I was one, to make periodical examinations of the gold on hand. The reserve in Toronto was in the vaults of the Bank of Montreal; and, odd as it seemed, another bank manager and myself visited the bank monthly, entered the safe, overhauled and counted the gold exactly as one of their own inspectors would have done.

The Western banks did not like these Government notes, though they were legal tender. But Mr. King was determined that these banks should carry a portion of the issue, and took characteristic measures to bring it about. The Bank of Toronto was strong enough to stand out for a time. But, later on, I recommended that we should fall in, as we could do it without detriment. And this we did.

Some time after the passing of the act it was rumored that the Commercial Bank of Canada was about to fall in with its provisions and relinquish its circulation. I could not believe it. It would have been a suicidal step for them to take. And as it was never taken, the rumor was probably unfounded.

THE ATTEMPT TO INTRODUCE THE NATIONAL BANK SYSTEM OF THE UNITED STATES INTO CANADA.

Matters remained in this position for several years. Meantime Mr. Galt had resigned and been succeeded by Mr. Rose of Montreal. Under his auspices another attempt and of a far more determined character, was made by the Government to change the basis of the circulation. At that time the system of the United States was in universal favor, and so far as the providing of a safe currency for the whole country was concerned, it undoubtedly deserved it. But specie payments were still suspended, and many inconveniences and drawbacks which have since developed themselves were entirely unknown. It cannot be wondered at therefore, that an idea began to prevail with the members of the Government, that the system might be introduced with advantage into Canada. It was based, as has been said, upon the holding of Government securities by every bank for the full amount of its circulation. Now the Government of Canada had already experienced great difficulty in the troublous times just referred to, of floating more of its bonds in England. It would therefore, be of great advantage if the whole bank circulation were required to be based on Government securities; for in that case, every existing bank would be compelled to make large purchases of debentures; and every new bank organized in the country would fall under the same rule. Immense sums of money (immense for those days, though they would not be called such now) would thus flow into the coffers of the Government, and relieve the Finance Minister from embarrassment. The idea was extremely attractive; but like some other theories, it omitted to take into account the most dominant factor of the

position, viz., how to obtain the money to purchase such an enormous amount of Government debentures as would be required. For it would be absurd to suppose that the Government would furnish them on credit. The bearing of this, however, was not well understood at first.

The bill to effect this object was prepared with great skill, and was brought forward by the Finance Minister as a Government measure. This rendered it all the more dangerous; for the Government, with Sir John Macdonald at its head, had a large majority both in the House of Commons and in the Senate.

It was incumbent upon me, as cashier of the Bank of Toronto, to carefully study the measure, which I did, and the conclusion I came to was this, that whilst it would not affect our profits to anything like the degree which Mr. Galt's measure would have done, it would have precisely the same effect in compelling us to reduce our discounts to such an extent as to cause very serious embarrassment to our customers. Under its provisions, we would be compelled to buy Government securities (and that at an enhanced price, because of the new demand), not simply for the whole amount of our capital, but for the whole amount of our circulation at its highest point; and also in addition, for the amount of the notes, with which we would carry on our daily business. This was an alarming prospect indeed, as I pointed out to the directors; for we would have to get the money from our customers. They fully agreed that to compel our customers to pay up such an amount would cause great distress and bring about numerous failures. In fact, it would produce exactly the condition of which I had spoken to Mr. Galt. If it was suggested that our customers could get accommodation at other banks, the reply obviously was, that other banks would be in the same position as ourselves, with one exception. I therefore, recommended the members of the board to do their utmost to oppose the measure as individuals, and to bring every influence in their power to bear upon the Government to induce them to abandon it. I did this, being well aware that some of them were influential supporters of the Government. It was a case, I said, for putting mere party considerations aside, and looking at matters from a purely commercial and financial standpoint.

It soon appeared that other banks were coming to the same conclusion, not only in Ontario, but in Quebec and the Maritime Provinces. Correspondence and conversations only deepened the impression of the disastrous consequences that the measure would entail, if forced upon us. All the banks in Western Canada were a unit in this opinion, as well as all the banks in the Maritime Provinces. Nearly all the banks with their headquarters in the province of Quebec, had this opinion also. And as Parliament was then sitting it was determined to hold a conference of the banks that held these views, in Ottawa.

I attended this conference, practically at the risk of my life. I was lying in bed, slowly recovering from an attack of malarial fever, when the day for the conference was approaching. An influential friend, a

Senator and a strong supporter of the Government, who, however, shared our views on this question, offered to provide a special car on the Grand Trunk to take me down to Ottawa. I then determined to go, *côte qui côte*. My wife accompanied me as a nurse. On arriving at Ottawa, I dragged myself up to the Committee room of the House of Commons, where the meeting was to be held, and found a number of influential gentlemen assembled, many of them Senators or Members of Parliament; all of them bank directors.

There were also a few managers present. The chair was taken by the Hon. Mr. Ferrier of Montreal, a local director of the Bank of British North America. But the meeting was very much at "*sires and serens*." In was soon evident that very few of the gentlemen had given much attention to the question; there was also a division amongst them as to how far some of them would go in opposing what was distinctly a Government measure. It was hard for a politician then, just as it is now, to separate from his party; and the sentiment was strongly expressed by some, both then and subsequently, that though it might be a bad measure, they could not see their way to oppose it in Parliament. Some of the gentlemen, however, were Senators, and therefore, much more independent than the Members of the lower House. The upshot of the meeting was, that it was desirable to form an association; the object being to preserve the free circulation of the banks. Of this association I was requested to act as secretary. The organization was very informal; no president was appointed, no funds subscribed, and no rules adopted. The only thing that was thoroughly determined on was to bring about, if possible, a withdrawal of the measure; for, of its defeat, if it came to a real Parliamentary contest, we had but little hope. But the strongest supporters of the Government were willing to use their private influence for withdrawal.

Not a word of this was communicated to the press, and not a line of our proceedings as an association ever appeared in the news of the day. But some of us did endeavor, on our own responsibility, to influence public opinion through the press, as will be seen. The banks of Nova Scotia had deputed Mr. Peter Jack, cashier of the People's Bank, to represent them in this matter. He was a well-educated banker, and had studied the question thoroughly. And being a man of much intellectual force, he carried great weight in the conferences we had on the subject. But his especial *forte* was in interviewing Members of Parliament, a faculty that I could lay little pretention to. I could, and did, write in the press, and address meetings and conferences. But when it came to interviewing private individuals, my tongue usually failed me. The President of the Bank of New Brunswick, afterwards raised to the Senate as the Hon. Mr. Lewin, a man of great influence in the city of St. John, N. B., was also active in our cause, and rendered most valuable service.

We all had our duties as managers or directors to attend to, and the business of the banks was then just as engrossing as it is now. It was

only snatches of time, so to speak, that practical bankers could give to the agitation of this question.

Very little was said about it at our board meetings, and even when absent in Ottawa, as I frequently was, I took care to keep firm hold of the business of the bank by correspondence. Fortunately for us, the Government also had other things to attend to, as well as this currency measure. To Sir John Macdonald, it was practically a side-issue in the great current of political events. There was no political principle involved in it, as he knew very well. And when one and another of his supporters took a different view from the Finance Minister, it did not greatly trouble him. He had acted independently of his Finance Minister once before, and we knew very well he would do so again, if circumstances called for it. He would not, therefore, let too much of the time of Parliament be taken up with this measure. It was not therefore pressed through as a great political measure would have been. We, therefore, had breathing time, and opportunity of pursuing our object in our own way.

Not that we were allowed to do this uninterruptedly. The able and astute General Manager of the Bank of Montreal was then at the height of his great fame. He was a perfect genius in finance, and was managing the bank magnificently, making immense profits, paying large dividends, adding heavy sums to the rest, and increasing the power and influence of the bank day by day. And an influential board of directors was with him.

He had studied the measure as carefully as we had; indeed, there was no doubt the Finance Minister had consulted him in preparing it; as was natural he should, the bank of Montreal being the bankers of the Government. The measure, had it passed, would have had great advantages for the Bank of Montreal, both present and prospective. It would have compelled many merchants and men of business to apply for accommodation to the bank, and to transfer their accounts to it. In fact, it would have gone further. The banks themselves would, in many instances, have been put into such a position, that they could not carry through their fall and winter business without rediscounting. And that must be largely with the Bank of Montreal. This would have raised the bank in many respects to the position occupied by the Bank of England in England.

It cannot be wondered at then that Mr. King lent his utmost influence to the side of the Government, and moved all the force at the command of the greatest bank in the country to enable the bill to be passed. And as we were endeavoring to influence individual members of Parliament, so did he.

Very much could be said on this subject, especially that it would ensure an absolutely safe currency for the country. And if the necessary contraction of discounts by the other banks was referred to, it was easy to say that merchants or their bankers might come to the Bank of

Montreal and get all the discount they wanted, if security were offered. Some might rejoin that one bank could not carry all the business of the country, when the reply would be to quote the example of England, and the Bank of England discounting for other banks.

To such an extent did this line of reasoning prevail that several of our Western friends became quite cool, while the Bank of British America concluded to join its influence to that of the Bank of Montreal.

It was an uphill fight, indeed, with such powerful influences arrayed against us. But the rest of us determined, nevertheless, at that time to persevere. The bill was read a first time. Later on it was brought up in the House again, and referred to a committee as usual.

It was either at this time, or before the measure was prepared at all, that the Government framed a series of questions on the subject, addressing them to the bank presidents and cashiers of the country, as well as to prominent members of the mercantile community. The questions referred specifically to the securing of bank notes by Government securities. Numerous replies were received. They were all published in a Parliamentary Blue Book, and form an interesting contribution to the financial history of the time. So far as the adoption of the system of the American national banks was concerned, the answers reflected opinions colored by the position of the parties concerned. My own answers were to this effect:

SPECIFIC OBJECTIONS TO THE PROPOSED CHANGE.

(1) That the proposed change in the circulating system was a revolutionary one.

(2) That the whole system of our legislation was founded on British precedents, under which all revolutionary changes were avoided, and attention directed to the reform of acknowledged evils.

(3) That in such legislation care was always taken to bring about the least possible disturbance to existing conditions.

(4) That no evils existed in Canada calling for such a radical change; for any losses by bank circulation had been infinitesimally small in comparison with the benefits it had conferred on the country.

(5) That the compelling of banks to hold Government securities to cover the whole of their circulation would cause enormous disturbance to business, bring about numerous failures, cripple the power of the banks to facilitate the movement of the crops, and the utilizing of our forest resources, and compel them to close up many of their branches, thereby inflicting heavy damage to the small towns and farming districts.

(6) And finally, that changes might be introduced into our banking charters of a conservative character which could be brought about without disturbance, and would, while preserving the essential element of free circulation, render the notes of the banks more secure.

We had not then thought of the great safeguard of making notes a

first charge on assets, or of the formation of a redemption fund. These were later developments.

The answers of the majority of practical bankers were to the same effect as the foregoing, though the directors of some of the banks expressed themselves differently. And some merchants who had read books on political economy aired fanciful theories on the subject.

I amplified my own ideas in a series of letters to the Toronto "Globe," under the signature B. N. K. R., and also addressed a large meeting of the Board of Trade in Toronto, pointing out that it was as much a merchant's question as a banker's. Mr. Jack was equally busy in Nova Scotia, and Mr. Lewin in New Brunswick, stirring up the business community to an appreciation of the evils to trade and commerce that must ensue if the measure passed. The managers of all the banks in the City of Quebec were active in the cause, especially Mr. Stevenson of the Quebec Bank, and Mr. Vezina of La Banque Nationale. Some of the bankers of Montreal were also with us, and rendered good service, but were not so prominent in the contest as Western men.

We were particularly careful to avoid even the appearance of making the matter a political one, for we knew well, in that case, there would not have been the least chance of success. The leaders of the Liberal party, which was then in a minority, were largely with us, as we well knew, and this purely on financial and business grounds. We knew also from the beginning that two of the most influential supporters of the Government, both residing in Toronto, were with us. One was a Senator, the other in the House of Commons. They held strong views on the subject, and rendered invaluable service to our cause both in and out of Parliament. They both had the ear of Sir John Macdonald, and did not fail to point out to him the danger of alienating his followers, especially from Ontario and the other Lower Provinces. In fact, this was really the policy we adopted; viz.:—to alienate one by one, on this question, so many of Sir John's supporters that if he allowed the Finance Minister to force the measure through the House, the Government would be in danger of a defeat.

We had, however, continually new difficulties to contend with. The Commercial Bank had failed, the effect of which was still further to weaken confidence in bank notes. One or two Western banks were known to be weak. The directors of others were afraid, for business reasons, to do anything in opposition to the all-powerful Bank of Montreal, whose branches were to be found in every important centre of business. At one time, when we were having a conference in Ottawa, rumors of coming financial trouble were so rife that the conference broke up and some of its members went hastily home to look after their own interests. However, I knew that the Bank of Toronto was all right, and remained quietly in Ottawa.

But a feeling of uneasiness began to prevail among some of the presidents of banks. Some of them were politicians; others had interests

that appeared to them more important than anything that could be affected by this measure. This uneasiness and doubt continued to increase rather than otherwise, and it was finally decided to hold another general conference on the subject. The place selected was Toronto. It was largely attended by presidents and vice-presidents, but only a few cashiers were present. I doubt if Nova Scotia and New Brunswick were represented. A long discussion ensued; the general trend of which was that it was not desirable to continue the agitation. I was present as secretary, but said very little. I never could speak with much effect to individuals, or to a small number. The meeting finally came to the conclusion to cease from agitating the matter, to accept the principle of the Bill, and to rely on making amendments in detail.

This was, to me, a matter of great mortification, and I went home vexed and depressed, for I well knew that to accept the principle of the Bill was to yield everything. The next day, however, having recovered my spirits, and feeling more than ever the momentous issues involved, and that a definite crisis had arrived, I told the president, it never would do to accept the conclusions of that conference. The passage of that bill would do the Bank of Toronto more harm than any bank in the country. We were doing by far the larger part of the grain and lumber business of the Western country, and it was there where the bill would strike. I said, we *must* keep up the agitation, and that they really must allow me to go down to Montreal at once, and see such bankers of that city and Quebec as were with us. I would also correspond with Mr. Jack, and ask him to come up from Halifax and meet us, as well as the President of the Bank of New Brunswick. They could be thoroughly depended upon. The aim must be to rally our scattered forces, and inspire with confidence the doubtful and wavering. It was a bold step for a young manager to take—to set myself in opposition to the conclusion of nearly all the bank presidents of Ontario; but I knew, as a professional banker, the nature of the issues involved better than any of these gentlemen; and determined that the contest should not be given up without another struggle.

I went down to Montreal and saw the men I had proposed to meet. They were all of the same mind with myself; we *must* continue the contest to the end; it was useless to talk about compromising on the details of the bill, as was suggested in Toronto. The sting of the bill lay *in its principle*, and that principle we would fight to the end.

Some members of the Government were disposed to ridicule our efforts. "What is the good," said they, "of a parcel of small banks setting themselves up in opposition to a strong Government like ours, and to the two strongest banks in the country?" We were, however, not frightened at such talk as this; for we knew well that when it comes to influencing votes in the House of Commons, a number of small banks acting together can do more than any single bank, no matter how powerful. Thus, then, we determined to persevere.

The session of Parliament closed without anything being done, and we had another breathing space.

Before the next one opened, a very important change had taken place. The Finance Minister, Sir John Rose, had resigned and gone to England to found the financial house of Morton, Rose & Co. Sir Francis Hincks, a prominent Canadian politician of former days, had just arrived in the country from Barbadoes, of which island he had been Governor for some years. Some conferences between him and the Premier resulted in his re-entering Parliament, and being offered the position of Finance Minister. His advent to power raised our hopes considerably. He was a Western man of a very practical turn of mind, had lived in Toronto many years as a man of business, and thoroughly knew the wants and requirements of the Western country. Of these, the late Finance Minister knew practically nothing. He was a lawyer in Montreal; and able man as he was, the horizon of his financial views was largely bounded by Montreal interests. But we instinctively felt that Sir Francis would give practical consideration to our representations. And so it proved.

Soon after he assumed office he determined to come up to Toronto to consult the Western bankers and the supporters of the Government on the subject. It so happened that I was on the platform of the Grand Trunk Railway station when he arrived, being about to visit one of our branches. Some political friends had come to meet him, one of whom was that member of the House of Commons who had so warmly espoused our cause. He introduced me to Sir Francis, and informed him that I could give him full information respecting the controversy, as Western bankers viewed it. We talked for some time, he manifesting great interest, and evidently taking in the position as presented to him. He then went into the city to see other bankers, some of them old political friends, and with whom he had further conferences. He remained a day or two in the West, and on leaving for Ottawa promised to give careful attention to the representations we had made.

He had, of course, heard the other side from members of the Government, and from the Bank of Montreal. But it was soon made evident that he would think the matter out for himself, and take his own course, no matter what names were quoted to influence him. I have no doubt after leaving Toronto he also saw bankers from Quebec and the Maritime Provinces. Some time now elapsed and the period was one of alternate hopes and fears. But at last we were summoned to meet him in Ottawa. A full representation from the West, the East, and the Maritime Provinces gathered in the capital, and to this conference Sir Francis announced the conclusions he had arrived at. These in substance were as follows:

NEW LAW RESPECTING CIRCULATION.

(1) That the banks should retain their circulation, with the exception of the notes of one and two dollars. These to be issued by the Government.

(2) The banks to be under no obligation to cover their circulation by Government securities. But not to issue beyond their paid-up capital.

(3) An Act to be passed creating an issue of Government legal-tender notes for the purpose of settlement between banks. The cash reserves of the banks at all times to consist partly of such notes; say, to the extent of two-fifths of the whole, whatever such reserves might be from time to time. For those legal-tender notes gold to be held by the Government to an extent to be agreed upon. The balance to be covered by Government securities held in the Treasury, of which ten per cent. would be guaranteed by the Imperial Government. Thus all ordinary issues would be covered either by gold or Government securities. Beyond this amount all Government notes to be secured by gold actually held.

Some other provisions for security were added, most of which had been suggested by ourselves, but the foregoing were the fundamental features of his scheme.

It will be perceived at once that this conceded practically all we had contended for. The surrendering of one and two dollar notes amounted to nothing. We were not sorry to get rid of them, for in the "runs" that some of us had passed through, the bulk of the people that crowded round our counters had presented only this class of notes.

The obligation to hold forty per cent. of our cash reserve in Government notes, was somewhat distasteful, for we had always held our whole cash reserve in gold; and some feared that its adoption might disturb the solid basis on which our currency and financial system rested. But, after all, the proposal could be adopted without practical inconvenience or danger, for the notes themselves rested on gold and securities readily convertible into gold. And the issues of the Government, apart from the small notes, would not enter into circulation at all, being all of large denominations.

It was an immense relief to us when the Finance Minister announced these conclusions, and when we met to consider them there was not a dissentient voice. We felt it to be reasonable that some concessions should be made after the main issue had been agreed to, and all declared their readiness to hold the large amount of Government notes proposed, if the gold basis were made sufficiently strong. Sir Francis willingly agreed to this, and great satisfaction was expressed at the happy result of so long and severe a contest.

It now only remained to embody these conclusions in legislation. And here we come to the origin of "The Canadian Banking Act."

With regard to the proposed issue of Government notes, it was comparatively easy to frame an Act embracing the points agreed upon. This

was done, and it exists to-day as the Dominion Note Act, having remained substantially as at first, with the exception of the enlargement of its provisions to meet the expansion of the business of the country.

But it was not so easy to deal with the charters of the banks, inasmuch as each of them at that time was in the shape of a separate act of Parliament. In their main provisions most of the charters were alike. But in several cases the constitution and privileges of the bank were on a different basis from the rest. These acts had been passed at different periods, and contained a number of minor provisions differing from one another. It was felt, however, to be undesirable that the banking of Canada should be continued under separate acts of Parliament, and that an effort should be made to frame one general act, embodying the most important provisions of them all, together with those that had recently been agreed to by the Government. The best legal minds in Parliament were then convened, in conjunction with the Finance Minister, to frame a general act. The Hon. Edward Blake took a prominent part in this, and some of the new clauses were drawn by him. All who had been active in the late controversy were invited to meet in Ottawa once more, and give these gentlemen the benefit of their suggestions. The committee had in addition the very valuable co-operation of the General Manager of the Bank of Montreal; for now that the great points of difference had been settled, the interests of all the banks were alike. Representatives of banks from all parts of the country, therefore, sat in conference day by day, discussing the clauses of the proposed act one by one; and none rendered more valuable service than our late formidable antagonist, who sat with us the whole time, and brought to bear upon the matter all those qualities of sound judgment and keen perception which distinguished him. We sat in one of the committee rooms of the House, and discussed the bill with a considerable sense of responsibility, being well aware not only that our conclusions would affect the whole *banking* interests of the country, but every other interest, commercial, manufacturing, and industrial, not to speak of the interests of the Government itself.

Many of the directors of the banks and several of their presidents were Members of Parliament; some in the Senate, some in the House of Commons. These, of course, sat with us from time to time, so that, though not formally constituted as such, we really were, in effect, a joint committee of Parliament and of bankers.

I have always considered that this gave our Banking Act its peculiar value, in that it expressed the matured judgment, sharpened by experience, of the foremost men in banking, commercial, and political life. After all this preliminary work, in which members of both political parties joined, it may be imagined that the bill passed through Parliament with little criticism and no opposition.

It bears marks to this day of being an amalgamating act, with exceptions here and there, in minor features, but bringing every bank in the country under the same general law in regard to essentials.

The duration of the act was for ten years, and it has been the subject of careful consideration and discussion at every decennial period since 1871. It has been amended and improved in important particulars after passing, however, through the same process that it passed through at first, viz.: long conferences between the Finance Minister, or his Deputy, and bankers.

SAFETY OF BANK NOTES FURTHER ASSURED.

By far the most important of these amendments was that which provides for bank notes to be a *First Charge on all the assets of a bank*, and as subsidiary to that, the foundation of a Redemption Fund, the far-reaching effect of which has been opened up elsewhere. Both these were proposed by the bankers themselves; the first in response to a renewed proposal to revive the act compelling a covering by Government securities. That, however, was not a serious effort, and the Minister readily gave way to our proposed substitute of a first charge.

I have thus described in detail the various steps of the process by which Canada came to possess a general Banking Act, which has proved itself satisfactory in the highest degree in its practical working, and under which a system of bank circulation has been established which combines in an eminent degree the qualities of safety, elasticity and adaptability to the varying requirements of commerce, and by the operation of which the financial affairs of the country have been preserved on a more stable equilibrium than in any other part of this continent, and perhaps of the world.

CHAPTER VI.

MY EXPERIENCE AS GENERAL MANAGER IN MONTREAL, INCLUDING REFERENCES TO BUSINESS IN NEW YORK, CHICAGO, MILWAUKEE, AND TO THE BARING CRISIS.

ENLARGED RESPONSIBILITIES—SHAREHOLDERS' ANNUAL MEETING—BANK FAILURES IN MONTREAL—OUR BUSINESS IN NEW YORK—JOURNEY TO THE SOUTH—SILVER AGITATION—VISITS TO COMMERCIAL CENTERS IN ENGLAND—THE BARING CRISIS—CHICAGO AND MINNEAPOLIS—VISIT TO MANITOBA—THE MANITOBA BOOM—THE BANKERS' ASSOCIATION—RENEWAL OF BANK CHARTERS AND THE SECURING OF CIRCULATION BY A FIRST LIEN ON ASSETS—FINAL RETIREMENT FROM BANKING.

AFTER I left the Bank of Toronto, I still continued to keep in touch with banking and financial movements. It was agreed that I should do so for about twelve months after my retirement, and give the bank the benefit of any information at my command. Moreover, I still continued to write for the press on financial subjects. This was in January, 1877.

The times had now been bad for nearly three years. They continued to be bad. Business was difficult, and failures increasingly numerous. It was known in banking circles that one of the leading banks of the country, the Merchants' Bank of Canada, was meeting with severe losses; and in such times as were then passing over us, it was with no surprise that the public learned that an uneasy feeling was developing amongst the stockholders and creditors of the bank. In these circumstances a movement was made by a number of stockholders looking to the retirement of the president and general manager, which finally resulted in the resignation of both. A new president and vice-president were at once elected. But the office of general manager was vacant.

ENLARGED RESPONSIBILITIES.

It was about the middle of February, only six weeks after I had, as I thought, bade farewell to banking for life, that it was intimated to me, by a banking friend, that the directors of the Merchants' Bank were thinking of offering the position of general manager to me. I smiled, and said the rumor was absurd. I had given up banking and was "out of

the running." However, he persisted that he had the information from a reliable source. This proved correct; for in the course of a day or two, during which I had been able to think over the matter, a gentleman from Montreal waited upon me to ask whether it would be possible for me to take charge of the Merchants' Bank, in the present emergency. I asked him at once whether he represented the directors. He assured me that he did. He added that he was authorized to say that in the event of my giving consent, everything in the way of support and assistance from the board would be rendered me; that the late president was still retained as director; that he could give me all necessary information about the affairs of the bank. (This was the late Sir Hugh Allan, whom I knew well. Of his high position I need not speak.) The late general manager, he added, was still in charge, and would render every assistance.

The responsibility of taking charge of a bank, under the circumstances, was a serious one, for two reasons. It had been attempted once before in the case of the Bank of Upper Canada, but the attempt had entirely failed; yet the gentleman who undertook the task was of much greater experience and much higher banking position than I could pretend to; besides this, the times were very difficult; there had been three years of depression, and it was feared there would be more, a forecast which proved only too true, for the succeeding years were worse than those that had gone before. Insolvencies were increasing year by year, and a settled gloom was prevailing in the commercial community, so that, instead of the usual query on 'Change, and at the clubs, "How is business?" the question was, "Who is going to fail next?" In the importing trade, bad debts were swallowing up all the profits and more. There was no profit in manufacturing, but very much the reverse. The great lumber and timber interest was in one of the deepest sloughs of depression into which it has ever been plunged.

Such was the condition of things when I was asked to assume charge of the Merchants' Bank. I knew something of this, from my experience in Toronto, but I did not know all. If I had, it is doubtful whether I would have had the courage to undertake the heavy task of rescuing the bank from its difficulties and placing it on a sound footing. There was, however, one great difference between the case of the Bank of Upper Canada and this, viz.: in the composition of the board. The board of the former bank I have characterized already. That of the Merchants' Bank was a complete contrast to it in every respect, consisting as it did of some of the wealthiest and most experienced business men of the community. Yet, able and important as they were, they were willing to give me a perfectly free hand in the work of reorganization, and to co-operate in any suggestions I made for improvement.

The two leading banks had offered to render assistance, and very politic it was in them so to do; for if the Merchants' Bank, with its multifarious business and branches spread all over Canada, and its

agencies in New York and London, had stopped payment, it is certain that a condition of panic would have superseded, such as to shake the credit of the country to its foundations. Their willingness to aid saved Canada from this disaster. They agreed at once to advance the sum I named as necessary; and a very large sum it was. But the security was unquestionable.

The board and the managers co-operated heartily in the work of reconstruction; but the task proved far more difficult than I could have anticipated. Not only were there masses of Canadian accounts to deal with, of the same kind that I had had to deal with before, but on a more extended scale; there were in addition immense operations being carried on in New York and London, of a different kind altogether.

The former I cut short at once, severe as the loss was, and it was well I did; for had the operations been let alone, the loss would have doubled. With regard to the latter, I accepted a favorable proposal made by the General Manager of the Bank of Montreal, whom I had consulted on the subject. There was going on at this time, indeed, what seemed like a certain amount of cargo being thrown overboard to save the ship. But save the ship we did, and steered her at last out of the stormy waters in a sound condition, and well found in every respect, by the blessing of God. And so she has continued ever since; and I don't think what was thrown overboard was of any permanent value; indeed, I told the stockholders afterwards, that during this terrible period, though we had to wade through and settle up masses of insolvencies, we had not lost a single valuable account. But with me, it was night and day work for more than three years; and my banking hours, during this period, might be said to have been from nine in the morning till eleven at night.

ANNUAL MEETING.

The time came at length for holding the annual meeting, and a very important occasion it was. It was not without apprehension that we had looked forward to it, for it had begun to be rumored in the city that an attempt would be made to hold some of the directors personally responsible for the losses. The meeting therefore needed to be very carefully handled. As the report of the directors was read, and it was stated that a reduction of capital of more than two millions would be necessary, a condition of suppressed excitement arose in the meeting. I was aware that explanations would be asked from myself, and had considered carefully what remarks to make. The directors, I was convinced, were not so much to blame as was generally supposed. I therefore began by reminding the stockholders that the directors were very heavy holders of the stock; that none were so interested in the welfare of the bank as they were; that they would be the heaviest sufferers by the reduction; that the times had been very difficult for several years;

that all banks had suffered losses; that if the directors had made mistakes, they had acknowledged them, and agreed readily to my suggestions for improvement; that the wise and practical course for them as men of business was to make the best of the situation, just as men had to do at times in conducting their own business. I told them that the bank had a large amount of good business left, and six millions of capital, after reduction; that upon this new foundation a good future might be developed; and that if the reduction of the capital were carried out, there could be little doubt that steady dividends could be paid in future. What the dividends would be would depend upon the general course of affairs in the country, but that the bank had considerable earning capacity there could be no doubt.

My object, as will be seen, was to pour oil on the troubled waters, and to turn the thoughts of malcontents into another channel from what they had been dwelling upon.

The vice-president made some very pertinent remarks, much to the same purpose.

It was no object of mine to cast blame on officials; but this I had to do to some extent, but cautiously and guardedly. When I sat down one or two of the stockholders asked questions, evidently prepared beforehand, as to the responsibility of the directors, and what was to be done in view of it. I had, however, no difficulty in answering them so as to prevent that kind of remark being carried further. The late president, with his usual sagacity, sat perfectly silent during the meeting, though most of the criticism was directed against him. A few other questions were asked, one of the most important being by Mr. Donald Smith of the Hudson Bay Company, now Lord Strathcona. This I was able to answer to his satisfaction. The meeting finally ended in the adoption of a recommendation to ask Parliamentary sanction to a reduction of twenty-five per cent. on the capital. And the directors were unanimously re-elected.

So ended this very important meeting.

THE ANNUAL MEETING settled things somewhat, and I soon afterwards had the satisfaction of repaying to the banks all we had borrowed from them, still, however, keeping good reserves. We were also realizing dividends from insolvent estates, and the proceeds of properties we were bringing to sale from month to month. And as one knotty point after another was settled, and one wave of difficulty after another was surmounted, I became more and more hopeful of the ultimate issue. But unexpected developments occasionally tried my patience almost beyond endurance.

We still, however, had one more ordeal to pass through, namely, to get a bill through Parliament authorizing the reduction of stock.

APPLICATION TO PARLIAMENT.

The first year had passed away. We were making a fair profit out of our good business, but could distribute nothing until the capital was

adjusted on a new basis. But the times were increasingly difficult. Depression became deeper and deeper, and by the time that Parliament opened, and we had to make our application, it became evident that the reduction would need to be larger than the stockholders had voted for. I was certain of this, owing to the number of new failures that had transpired and the unsatisfactory result of many insolvent estates. It was therefore with a heavy heart I proceeded once more to Ottawa and traversed the familiar halls and corridors of former years.

The able and experienced Solicitor of the Bank, the Hon. John Abbott, accompanied me; perhaps it might be put that I accompanied him; for of course, as our Advocate, he would have the task of presenting the case to the Banking and Commerce Committee of Parliament. He was a member of Parliament himself, and some years after became Prime Minister.

The Finance Minister of that time had somewhat of a reputation for impressing upon deputations that he knew their affairs better than they did themselves. In some cases this might be true. This disposition of mind on his part, however, was of very great service in our interviews with him. I was convinced, and had so informed the board and Mr. Abbott, that unless we got the capital reduced by thirty-three per cent., instead of twenty-five, it would be difficult to carry on business satisfactorily. The difference would be some \$700,000; and we needed it all, if we were to start on our new career with any sort of a reserve fund. But it was difficult to express this to the Parliamentary Committee, for our mandate from the stockholders was to ask for a reduction of only twenty-five. But to my surprise and great satisfaction the Finance Minister himself began to suggest doubts whether a reduction of twenty-five per cent. would be sufficient. This was exactly the line we wanted him to take, though we did not give him to understand it in so many words. He had formerly been a director of the Commercial Bank, whose business we had purchased, and knew very well what the purchase of that business had involved. And he was well aware of the depression of business that prevailed in the country. The discussion was joined in by another member of the Cabinet, a very influential Montreal gentleman, who said that he had also about made up his mind that a greater reduction than twenty-five per cent. would be necessary. In fact, he thought it would be better to make the reduction thirty-three per cent. This was an immense relief. I doubt much whether we could have secured such a reduction if we had pressed for it ourselves, but when the Finance Minister announced this as a decision, it was accepted with a satisfaction I did not care to show. On this basis then a bill was brought into Parliament. There was no opposition. The bill passed without difficulty, and received the Royal assent.

When this bill was passed I felt that, at last, we had got down to a solid basis. The credit of the bank was restored, we had a good circle of valuable customers and numerous paying branches. Our officers were

coming to understand their duties under the new regime, our machinery for dealing with insolvent estates was well organized, and although it was more than three years before we were fairly "out of the woods," I felt more and more confident that we could hold our own against any storm that might rise, give satisfaction to our customers, pay respectable dividends to our stockholders, and gradually accumulate a rest, which we hoped in time might amount to fifty per cent. of the capital.

BANK FAILURES IN MONTREAL.

About the end of this long period of depression signs of weakness began to be exhibited by several small banks. These banks had no branches, their business being entirely local. Their methods of management had never inspired confidence. The manager of one of them was of rather a boastful temperament, and amongst his friends was accustomed to say that the banks of the city generally were old-fashioned in their ways, and their modes of doing business not suitable to the times. We rather smiled at all this, knowing well that banking was a business founded on settled principles, demonstrated by long experience to be unsusceptible of change from changing times. We quite expected that some day or other this bank would get into difficulties, and apply for assistance. And so it happened. The Merchants' Bank took part in connection with some of the older banks in rendering them assistance, taking such security as the bank was able to offer us. This, however, only put off the evil day, and at length the bank stopped payment, and was wound up. All these banks had conducted their business in a sanguine and reckless manner, in defiance of the precautions which experience has rendered necessary to safety. Their failure, however, only intensified the gloom which invaded financial and business circles, a gloom which had continued (1879) for nearly seven years; and whispers began to be about respecting the position of other banks. Slight symptoms of a run were manifested in some quarters. I had fully anticipated this, and strengthened our cash reserves, so that if a drain did set in we could meet it without difficulty. However, nothing of the kind took place, nor was there any serious demand made upon the other banks. Yet, I did feel the continuous wearing anxiety of the unprecedented number of commercial failures that were transpiring (more than four times as many as they were a year or two afterwards), and longed for the time when the clouds would break.¹²

¹² How deep the depression of this period was may be gathered from the fact that Bank of Montreal stock had fallen from 227 in 1872 to 125 in 1879. Bank of Commerce from 122 in 1877 to 95 in 1879. Bank of Toronto from 176 in 1877 to 106 in 1879. The Canadian Pacific Railroad, now in such a magnificent financial position, was then in such straits that after borrowing all it could from its bankers it was obliged to pay for supplies by promissory notes, which notes were hawked about the street, at a heavy discount. I never lost faith in this enterprise, and discounted all its paper that was offered.

OUR BUSINESS IN NEW YORK.

During the period of reorganization, and before we had got the act of Parliament to reduce the capital, it was useless to attempt to do much business in New York. We had no spare money to lend on stocks, and our commercial credits were not looked on with favor. Neither could we draw further on our London office, which was about to be closed.

We therefore retired into a sort of obscurity for a time, and made an arrangement with a private banking firm to occupy a part of their spacious office, and to do a Sterling business, under their wing. We did not expect to do more than pay expenses under this arrangement, but it enabled us to keep our hold upon New York. It would keep our officers in touch with the market, and in practice. We therefore gave up our own office in Wall Street (saving a heavy bill of expense thereby), and entered on the new arrangement on a very economical scale.

This continued for a year. We did a quiet, safe business, having the advantage of the excellent judgment of one of the partners of the firm in the critical business of buying bills. We made no bad debts, and lost nothing, somewhat of a contrast to our former Wall Street experience. But on the other hand we *made* nothing.

Our relations with the firm were always satisfactory; but at the end of a year our managers thought we might make the experiment of opening an office of our own. Our credit had gradually become re-established, and we were beginning to have once more some disposable funds.

I therefore recommended opening. The board coincided. We rented a very unpretentious office in Exchange Place, at a very moderate rent, and commenced business on the new foundation. And as we had an unimpaired capital of six millions, with the nucleus of a rest in addition, we considered that we had a fair chance of success.

We soon found that we could sell our sterling bills at fair rates, drawn as they were on a Scotch bank of undoubted strength. We proceeded very cautiously in the matter of issuing commercial credits, however, for the business has risks peculiar to itself. Before long we were able to spare funds for loaning on stocks. Thus between the sterling business and the interest on our stock loans, we did a fairly profitable business in the first year. At the time of the boom in Winnipeg, as will be seen later on, we had enormous deposits at that branch. It would have been madness to employ them in discounting, and not prudent at that time to place them out in stock loans in Canada. We therefore transferred almost the whole amount to New York, and placed it out on call loans there. Our New York business now assumed respectable proportions. The brokers included us in their daily round of calls, and we took our place once more amongst the Canadian banking institutions which have played such a prominent part in Wall Street for the last generation. In the second year we made very considerable profits. But a cloud was still hanging over the commercial position. Stocks were heavily depressed,

Much business in the United States was carried on without profit. But Wall Street was free from spasms, our customers were amongst the best of the city brokers, and every one that knows New York knows what a highly respectable class of men, as a rule, they are. (I stay my hand here, for a moment, to say that of the hundreds of millions of money we loaned to brokers in New York during the twenty-five years of my administration, we never lost a dollar. We did lose, however, once, by dealing with principals.)

As time went on, our managers came to have a more intimate acquaintance with the range of stock and bond securities, and as one of them had been brought up in New York, we came to feel more confidence at headquarters in their judgment. We still, however, had to test by experience, what the effect of a *sharp break* in stocks might be. It came at length, and to my great satisfaction we passed through it safely. Some premonitory symptoms had appeared, and caused us uneasiness in Montreal. On the day when the heavy all-round break took place, we had advices as the day went on; and at the close, I took the night train for New York, to scan the position for myself. To my great satisfaction, on entering our office early next morning, I found our managers perfectly comfortable and satisfied. The brokers had responded bravely to our calls for margin. We never called for *payment* in a single instance, nor were we ever near the point of considering whether a stock should be sold out. Matters quieted down in a day or two, and this experience gave us great confidence in lending money on stocks in New York.

And this has been our experience on every occasion of a similar kind since then. Our customers amongst the brokers have never failed us. We have passed through several crises, when the whole market went down an average of twenty-five per cent.; some stocks, of course, falling far more. Yet, at the close of the day, our loans were as well margined as before.

But on occasions, we have been approached by principals, with proposals for time loans, and by one of these, we made a considerable loss. The loan was desired by a man in good commercial standing, on a stock quoted above par. The margin offered was ample, larger than usual, as the loan was to be on time. But this lending on time to a principal proved a great mistake. The party proved to be the promoter of the enterprise, and the largest owner of the stock.

It had formidable competitors, and the stock, while in our hands, began to fall. We called for more margin, and for a time he responded. The price still fell, and our call was repeated. But this time he failed to respond. The stock went down until it reached so low a figure that the promoter was ruined, the enterprise absorbed by its opponents, while we made a considerable loss. This sharp lesson taught us the importance of confining our business to brokers, who always have a principal behind them, and who exercise their own judgment on a stock before presenting it to us.

With commercial credits our experience has not been fortunate. We have never done a large business in this line, but the average of loss has been high. The worst was the case of a credit granted to a couple of young Englishmen of the half-gentleman class that I have referred to in a former chapter. Their business was in exporting grain. What they did in this line was perfectly satisfactory. But on one occasion they took a fancy to dabble in the importation of steel rails, which they thought were likely to advance heavily. A small clique of fellows of the same class as themselves were in this venture. We gave them a credit to import a thousand tons, a great mistake as it proved, for they were not in the business; and the price instead of advancing, fell heavily. By this and similar operations the firm was ruined. Some circumstances transpired in our case which created a suspicion of fraud, and we prosecuted one of the parties, but got no satisfaction. We did, however, get judgment against each of them individually. The younger of the firm went home to his father, a country gentleman in the West of England. We sent the judgment to London for execution, but the young fellow was always kept out of the way. The next time I went to England I thought well to go down to see the father and endeavor to effect a compromise. But he flatly refused to see me, and soon afterwards he sent his son out to India. Many years afterwards we heard that he had returned, and that he was about to be married. This, we saw, was our chance. We threatened to put our judgment into execution. An offer of compromise was made at once. We refused to take it. The offer thereupon was doubled, and after consultation with our agents in England, we concluded to settle on these terms. And thus ended this disagreeable business.

Only on one or two occasions during a long course of heavy business in New York have we suffered by actual fraud. We have bought millions of pounds of sterling bills, every year, and made loans on stocks aggregating as has been said, hundreds of millions, but have never had a forged bill of exchange on our hands, nor a fraudulent certificate of stock.

But we were victimized on one occasion by the presentation of forged bills of lading under circumstances more remarkable than anything in my long banking experience, or perhaps in the experience of New York itself. It was a sad case, and one would willingly draw the veil of silence over it. But as these reminiscences are written as lessons of instruction, I cannot pass it by. Moreover, the transactions were all made public through the courts.

We had much business, both in Chicago and New York, with an exporting firm of the highest standing, whose very name carried an assurance of respectability and honor. For many years nothing could be more satisfactory. On one occasion, however, they departed from the usual course and instead of offering bills of exchange with documents they presented the documents themselves, and desired a temporary loan

upon them—the bills to be brought in subsequently. The transaction seemed reasonable, although a little out of course, and the loan was made, which was of considerable amount. One or two days passed. The bills were not brought in. The Produce Exchange was next startled to hear that the firm had failed. But infinitely worse than this was the discovery that the documents were forgeries. It was incredible. Such a firm might fail, but *Forgery* was unthinkable. It was, however, only too true. Apprehension and trial followed. A plea of insanity was put in, but nothing resulted. The estate barely paid the expense of the liquidation, and the bank lost the whole amount of the loan.

It was a heavy blow. But we could hardly blame the managers under such circumstances, and we bore the reverse with the philosophy which all banks have to exercise at times, when some unforeseen trouble befalls them.

JOURNEY TO THE SOUTH.

Our general sterling business was, on the whole, most satisfactory, and in connection with the most important branch of it, the purchase of cotton bills from the South, we had not a single casualty, large as the annual turn-over was.

It is a good rule for a banker to have personal acquaintance with those he deals with, and in furtherance of this idea, I proposed to one of our New York managers that we should take a journey down South together, and make the acquaintance of the firms whose bills we had bought in the aggregate for so many millions. We therefore made the journey, visiting Charleston, Savannah, Pensacola (to see a timber firm there whose business was in charge of a young man who had been one of our clerks), New Orleans and Memphis. At each place we called upon merchants and bankers, discussing with them the prospects of trade and movements of business and finance. It was one of the most interesting journeys of my life. The bankers were thoroughly modern in ideas and methods, and the merchants were men of more than average intelligence, some of them sent out from Liverpool to represent great cotton houses of that city, and being in the habit of paying periodical visits to England, France, and other cotton-consuming countries. And it surprised me to learn what a large portion of the crop was sent to Continental countries.

SILVER AGITATION.

During the great Presidential Campaign of that time, under Bryan as a candidate, we were in constant anxiety as the phases of the contest unfolded themselves. All our loans, whether on call or on time, were made payable in gold, but we were very certain that if the Bryan policy prevailed, gold would go to a premium. There would be a natural limit to this; depending on the ratio that was fixed. But the premium would certainly be enough to make it extremely difficult for brokers to fulfil their contracts. It would therefore inevitably bring serious elements of

difficulty and danger into a business which had always been eminently satisfactory. Foreseeing this we gradually curtailed our loans, and by the time of the election had reduced them to a very trifling amount. But the good sense of the American people once more prevailed. The crisis was safely passed. Business resumed its ordinary course and we soon put out money to as large an extent as usual. But there was a time during this agitation when gold did become difficult to obtain, and we once actually paid a premium for a considerable amount we desired to transfer to Montreal.¹²

VISITS TO COMMERCIAL CENTRES IN ENGLAND —THE BARING CRISIS.

In connection with our sterling business, both in New York and Montreal, I paid periodical visits to England, and spent much time in the great centres acquiring information. This I could easily do, through our banking correspondents in London, Liverpool, Glasgow and Bristol, from whom I received much of what may be called *inside* information, that could never have been obtained otherwise. This we used for the guidance of our sterling operations in New York and Montreal. As a specimen of the kind of information given to me, I will mention several instances, withholding names of course. They occurred many years ago. In one of the above-named centres, a commercial firm had for years maintained the highest standing, and was marked with the highest marks in Reference Books. Bills upon this house it was generally considered safe to take to any amount. But while in that city I was confidentially informed that the senior partner, to whom nearly all the capital belonged, had retired from the firm about a year before. This was not generally known. The name was retained; so was the rating in reference books, and the business was going on as usual. But the strength of the firm was so diminished that it was practically a different concern. I therefore advised New York office to have all bills upon that firm in future accompanied by documents. In the same city, with regard to another firm, and in a different branch of business, I learned other particulars which I deemed important enough to cable out at once. I always carried a special cipher with me in these visits abroad. The cable cost about five dollars, but it was worth ten thousand; for the firm failed shortly afterwards.

THE BARING CRISIS.

All the world knows now of what was impending some years ago over the great house of *Baring*, and how under the lead of the Bank of England the resources of all the banks in the country were skillfully com-

¹² I had read a paper before the American Bankers Association at Chicago some time previously, on this silver question, taking of course the view entertained in New York and the East.

It was received with general favor, except by a gentleman who was not a banker at all.

bined to prevent a catastrophe which would have shaken credit to its foundations all over the world. I was in London some months before this intervention took place, and heard whispers, in the strictest confidence, that the great house was getting into deep water. This was a kind of thing that no man could talk about; but I gave instructions of a secret and confidential character to New York to limit their purchases of the bills to a moderate sum. This was our policy; and when the crisis supervened it would not have mattered materially even if an actual stoppage had taken place.

CHICAGO AND MINNEAPOLIS.

About the year 1879 we opened an office in Chicago. Montreal and Chicago are closely connected in trade. One of our largest customers did a heavy and legitimate business there, and some of our directors were well acquainted with the mercantile people of the city. The vice-president accompanied me to look over the ground, and together we interviewed a number of men in the grain and provision trade. They gave us considerable encouragement, and our report to the board was favorable. We therefore opened, taking a very good office in a leading position near LaSalle Street, and soon had plenty of applications for loans on warehouse receipts as collateral. But our experience on the whole was disappointing. We had hoped and expected to build up a good line of deposits, and in time to have the accounts of interior banks. This expectation was not fulfilled. All the money we loaned had therefore to be drawn from our resources in New York, and although we could generally calculate on a steadily higher rate of interest, we found at the end of a year that the net result was little better than we could have realized had we left our money there. We found, too, that though our loans were abundantly safe so long as grain remained in warehouse, we had to take the risk of its removal, and surrender our security for several days at a time, having nothing but our customers' pledge to replace it. We had been assured that a default in this matter was almost unknown; that not one instance in a thousand of defaults had taken place. This was so far assuring. Still, we could not help feeling that possibly, at some time, we might be that one.

We might, however, have remained in Chicago, but that one of the "corners" in grain that distinguish it, transpired while we were there. Margins rapidly ran down, and we had considerable grain out on bailee receipts. For three days we were in a state of uncertainty as to whether our customers could stand the shock or not. By that time, however, margins were made good, and grain was shipped. Our customers were standing, and going on with their business, but I had been, more or less, "on the rack" during that time, and not feeling sure but that something of the kind might happen again, I concluded to recommend the board that we should withdraw from the field, which we did some time afterwards. We had one or two trifling losses, not worth troubling about,

and which were fully recouped by the enhanced value of the Board of Trade sent held by our manager.

Our Chicago experience, however, was not thrown away, as it enabled us, with more intelligence and confidence, to carry those loans on grain in Duluth and Minneapolis, which were so prominent a feature of our business some years afterwards. The Minneapolis loans, however, I may say, were always guaranteed by a bank, and were done at a slightly lower rate of interest on that account. The Duluth loans were made direct, but under the supervision of a former officer of a Canadian bank, whom we could implicitly trust. While in Duluth on one occasion in connection with our loans there I made a thorough examination of the system under which warehouse receipts for grain were granted and cancelled. A perfect system of registration was kept up, and irregularities rendered almost impossible. I have often wished that some system of the same kind was in force in Montreal.

All these loans were made on what are known as Terminal receipts. Receipts of warehouses in the interior have proved troublesome, and I have never encouraged them.

VISIT TO MANITOBA.

In the summer of the year 1878 I determined to pay a visit to Manitoba for the purpose of examining the business of our branch in Winnipeg. There was no route to the Northwest at that time except via Chicago and St. Paul. The first was comparatively familiar; but beyond Chicago I had never travelled. I stayed over a day in St. Paul, as we had some banking connections there. It was at that time a somewhat sleepy-looking old place, and much unlike its active neighbor Minneapolis. St. Paul, however, was said to be much the more wealthy of the two.

Resuming my journey to Winnipeg, by a night train, I well remember opening my eyes in the morning and seeing what appeared to be a vast extent of ocean. I could not conceive at first what it was, for I knew we were a long way from Lake Superior but at last it dawned upon me that this was the beginning of the great prairies of the Northwest. And so it was. I had seen the cultivated prairies west of Chicago, but never had my eyes beheld such a vast expanse of unoccupied ocean-like green wilderness. We sped on our way through what was then an almost wholly unsettled country, and late in the afternoon we reached Winnipeg.

Winnipeg had then about six thousand inhabitants, and the business of the branch was of about the same extent as that of an Ontario town of the same size. No one who knows the splendid capital of the Canadian Northwest now, with its handsome streets, magnificent public buildings, banks (there are eleven of them), great warehouses, and beautiful boulevards of villa residences, can conceive what Winnipeg was at that time. It was, in fact, little better than a straggling village. Its streets were entirely unpaved. At the southern extremity stood the historic Fort

Garry, the headquarters of the Hudson Bay Company, and once the scene of the stirring events of the Riel rebellion. The Merchants' Bank was the first established in the Northwest, and its supplies of money were sent by long journeys over the vast stretches of prairies to the infant city. We did nearly all its banking business for some years, and indeed of the whole Northwest. But it was a small affair at the best. Save and except the forts of the Hudson Bay Company—little centres of civilization amidst surrounding solitudes—there practically was nothing in the interior. Now traversed by railways in all directions, it was then utterly untrodden, except along the trails of the enterprising voyageurs of the great Company.

While I was in Winnipeg, sitting in the manager's room, a travel-stained messenger came in, bearing a package of letters. He had come from a far-distant settlement in which a few traders had gathered with whom the bank did business. The manager asked him how long he had been on the road. He replied, *sixteen days*. Noticing that the packet was damp, the manager asked the messenger what was the reason. He replied that he could not always keep the packet out of the water when he was fording the rivers. The place is now a prosperous town within sixteen hours of Winnipeg.

We had some customers in a village about sixty miles away, called Portage LaPrairie, at the extremity of settlement and civilization, and being desirous to see the interior for myself, the manager made arrangements for a journey there. The first fifteen miles was through scattered settlements along the Assiniboine River. We then struck out, across the uninhabited prairie, and in about an hour were fairly "out of sight of land" so to speak. Not a single thing was in sight but the great ocean-like expanse, all around us, and as we drove along, hour after hour, I could not help thinking what would happen if we lost the trail, and we found ourselves alone in a trackless wilderness. A small speck appeared after a time upon the horizon. The speck enlarged until it became a farm-house, standing alone, in the great expanse. We passed through the farm-yard, and then struck out once more into the open prairies, arriving, after passing a few farms, at Portage LaPrairie in the afternoon. In the sixty miles, which we then traversed, there are now *five stations* of the Canadian Pacific Railway, and the last ten miles of our journey now form part of one of the finest wheat-growing regions of the continent. Portage LaPrairie, now such a prosperous and thriving town, with three or four banks, and great mills and elevators, was then a dirty little village,¹ the only "hotel" being a miserable little tavern, something like the Eagle Hotel in the story of "*David Harum*."

¹ Yet it is curious how in such places, in the extreme frontiers of civilization, are often to be found Englishmen, or Scotchmen, of high refinement and good family connections. Our principal customer there was a grain merchant. I found him a perfect gentleman, a nephew of the Bishop of Norwich. In his warehouse was a stalwart young fellow busy amongst the grain. He was of the Gurney family, the great bankers of Norfolk and other parts of England. I

Beyond Portage LaPrairie there was at that time practically nothing. In the regions beyond, where now there are such numbers of towns, bank offices, magnificent farms, cattle-ranches, coal mines, and thousands of miles of railway stretching on to, and through the Rocky Mountains, and where a hundred millions of bushels of grain were grown this year (1908), nothing was to be seen but herds of buffalo, Indians of numerous tribes, and the forts of the Great Company. Only thirty years have elapsed since my visit, yet in that short time a new world has been evolved from the wilderness.

The journey home was unattended by incident, but I could not fail to have realized what enormous stretches of country are contained in this Northwest, and formed some idea of its possibilities, when a convenient way to it was opened up.

THE MANITOBA BOOM.

Little, however, did I dream of the extraordinary developments that were to come. It was only three or four years after this that the first signs of the "Manitoba Boom" began to appear. The Pacific Railway was being pushed with extraordinary energy, and made it easy to traverse regions till then inaccessible and practically unknown. But the more the country was known, the more highly it was reported of. Yet the land could then be bought for one or two dollars an acre. An idea, however, soon arose in older Canada that these lands must largely increase in value. Reports of the condition of things were constantly sent to the older provinces, and gradually a heavy speculative demand sprung up from the East. Along with the stream of *bona-fide* settlers, which, however, was never a large one at that time, there came to the Province a number of speculators in land, with money in hand, who began to make purchases, more or less extensive, here and there, as more and more of the country was opened up. These early speculators all made money. Reports of their successes spread about. More and more men were led to invest money, and before long the "land fever" began to work. As is usual in such developments, men soon ceased to take a practical view of possibilities, and instead of this, "to dream dreams and see visions." Men began to say that instead of two or three dollars an acre prairie land was worth *ten or twenty*, and as to town lots, nobody could imagine how much they were worth. The ball gathered momentum rapidly. Swarms of

had an introduction to another customer who lived at the hotel. He proved an extraordinary fellow, one of those who have knocked about the world until they are tired; who know everybody and have seen everything. We talked far into the night—mostly about England. I mentioned that I was from Yorkshire. He knew the county well. I spoke of the great Fitzwilliam family of the neighborhood where I was born. Strange to say, he knew them, too, and told me a curious story about a blacksmith who owned a little freehold near their estates. A traveller calling one day to get his horse shod, enquired who owned most of the land thereabout, on which the blacksmith replied, "OH, IT ALL BELONGS TO ME AND LORD FITZWILLIAM."

Eastern people went up to Winnipeg with money, deposited it in the bank, and bought all they could lay their hands on, paying down money for the first instalment and giving mortgages for the balance. The great speculation was in town lots. At favorable points traders and store-keepers began to settle, and numbers of places were marked out as the towns of the future. Now, while there is a natural limit to the price to which farming lots might rise, who could tell what might be the value of lots, in the future town, or city? In Winnipeg itself and round about, and in little places of fifty or a hundred inhabitants, which people imagined might grow to towns, or cities, a perfect *furor* of demand set in for the possession of the lands round about, which were, by and by, to be covered with streets, stores and dwellings. The experience of Ontario in 1856 was repeated in even a more extravagant form. Thousands of people went on buying and borrowing with the utmost confidence, making payments down with their ready money, and entangling themselves with mortgage obligations, spread over long terms of years, selling when they could to others, at continually enhanced prices on the same long terms and never dreaming of the covenants on their mortgages which were to drag them down to ruin.

Meanwhile the business of our Winnipeg Branch was growing to enormous proportions. Deposits increased *tenfold*. The amount of transactions passing through the office was incredible. The counter was thronged from morning to night by such crowds as are found at the doors of an Opera House when some celebrated prima donna is performing. A stranger would have supposed that some heavy run was taking place; but it was just the opposite. Most of these people wanted to deposit money, or to put in drafts for collection on distant points, transferring money to Winnipeg. The president and myself visited Manitoba while this boom was at its height and saw all this with our own eyes.

During this inflation, as is always the case, a style of extravagant living prevailed which set all reason at defiance. Nothing was too good for people to eat, drink or wear. Champagne flowed like water. Plain and comfortable churches, such as were suitable to a moderate-sized town, were replaced by costly erections, fit for Montreal or New York. Houses were built of the best materials and style, of one of which it was said that every brick (they were imported from an immense distance) had cost a dollar. Yet the real business of the country was so small that its exports of wheat scarcely amounted to a million bushels a year. I remember answering to a query of a house in the grain trade in New York with whom we did business, that there was not grain enough in the whole of Manitoba at that time to make it worth their visiting it.

After two years, signs of reaction set in. Dreams and visions gave place to practical realities. Men that had settled on farm lands realized the difference between the cleared farms of Ontario and the prairie farms of a province in the interior of the continent. Ideas of value began to settle down. The twenty dollars an acre became ten; the ten five, the

five two; and men that had given mortgages at fifteen and twenty dollars an acre found, when they could only sell to actual settlers, that five dollars an acre was the utmost they could get for the best lands. Loan companies that had lent money on security of prairie lands, town lots, stores, churches, and warehouses, found that the security in hundreds of cases would not realize half or a quarter of the loan.

As to the banks, nearly all their mercantile customers had become entangled in land speculation, and were caught in the reaction. Their trade bills were largely drawn on men who had speculated and failed. Many of these bills represented goods of the extravagant style before mentioned, which goods were never paid for by the purchasers. Some bills were for more than the makers owed, and some were downright forgeries. Manufacturing enterprises, saw mills, foundries, fisheries and such like collapsed. Thousands of speculators whose operations had once made business to boom, left the province bankrupt. Failures mounted up to terrible figures. The banks had their cases full of past-due bills. In one town every single trader, with one exception, became insolvent. In that town the losses of the Merchants' Bank amounted to seventy-five per cent. of its whole discounts. Some ambitious *churches* now became practically bankrupt, and made proposals of compounding with their creditors. This revulsion, however, never became a panic. It was exactly like that of 1857 in that it dragged along for years, bearing down with an increasing heaviness as the years passed on. Its effects were not confined to Manitoba, but were felt in all parts of Canada. Three important customers of the bank who were utterly unconnected with Manitoba in the way of business, failed in after years owing to their speculations in the time of this land boom. As to our customers in Manitoba itself, only a few of them survived. We had made very heavy profits during the time of the inflation, but with all our care, and the constant directions given to our managers, they could not help their judgment being *biased* as to the character of the transactions offered them. Masses of landed property came into our hands, formerly belonging to our customers, and held by them at inflated prices; also endless claims against traders, customers of our customers, scattered over distant parts of the immense interior. To deal with these I organized a separate department of the office in Winnipeg, and it was only after many years that its functions ceased. We wrote off large sums for losses year after year, but I fancy other banks (for by this time there were others in the Province) had at least as severe an experience as ourselves proportionally, and one of them (not now in existence) a far worse. For our profits exceeded our losses considerably.

THE BANKERS' ASSOCIATION.

The general managers of the banks had met, as usual, in Ottawa in 1881 for the purpose of conferring with the Finance Minister, and on the journey home the suggestion was made, I think, by Mr. F. W.

Thomas of the Molsons Bank, that it would be desirable to form a permanent association for the furtherance of our mutual interests. The idea was received with favor, and shortly afterwards we began to confer as to the basis on which it should be formed. We found it a difficult subject. The first difficulty was to settle the question, who should be members? After much discussion and correspondence, it was finally agreed that the membership should consist of the *banks, as corporations*, each to act by its principal Executive Officer, whether he were called president, general manager, or cashier. On this basis, the government of the Association was to rest. But it was provided that a class of associate members should be formed, composed of all bank officers who desired to join and would pay a small subscription. This arrangement of the membership has worked exceedingly well. Another question was as to what powers the Association should exercise over its own members. Discussion had not proceeded far, however, on this head, when it became clear to us all that of actual power, the Association could exercise none at all. It was, however, felt that it would be reasonable, in the case of any bank departing unduly from the rules of safe banking, that the matter might be discussed in some confidential committee of the Association, and a friendly intimation in the general interest conveyed to the bank concerned. This was, however, a matter of extreme delicacy, and I am not sure that it has ever been acted upon.

Of this Association I was elected the first President, the position having been naturally offered to Mr. E. S. Clouston, General Manager of the Bank of Montreal, who declined to accept it. Subsequently, however, he accepted the position and has held it ever since.

RENEWAL OF BANK CHARTERS AND THE SECURING OF CIRCULATION BY A FIRST LIEN ON ASSETS, AND REDEMPTION FUND.

When the bank charters were up for renewal in 1880-81 the Finance Minister again brought forward the proposal that we should cover our circulation by Government securities. There had been several bank failures not long before which gave weight to the proposal. As had been the case before, the general managers of the banks had met in conference at Ottawa with a view to consider whether any changes in the Banking Act were desirable. The idea had been mooted by some of us that the best possible security for the notes would be to make them a first charge on all the assets of banks, including the double liability of stockholders. It was perfectly reasonable that they should be so, inasmuch as holders of notes were involuntary creditors. The proposal to cover by Government securities met with strenuous opposition, especially from the Western Banks, and in conference with the Finance Minister we argued the matter at considerable length. Sir Leonard Tilley asked me to state the case for the banks, which I did, drawing on the experience of 1868-1871. The Government finally did not press the matter, but adopted our

alternative proposal. This had a very simple look on paper, and only a few lines in the Banking Act were required to make it law. But it had a very far-reaching aspect, and has proved in practice sufficient to make the notes safe, even when a bank has been scandalously or even fraudulently mismanaged. At the next renewal of the charters, still further safeguards were introduced in the shape of a Redemption Fund, which, however, it has never been necessary to put into operation, though there is held by the Government a large sum available for the purpose, contributed by the banks in a fixed ratio to their circulation.

The charters of the banks were again under review in 1891 and the Association acted with considerable effect in preventing what would have been an undesirable addition to the Act. It is easy for doctrinaires to frame theories; it is only practical men who can judge of their effect. On this occasion, as once before, it was proposed to introduce a prominent feature of the American system, viz.: the compelling by law of a fixed minimum of reserves to be held by the banks. Against this we were a unit, for good reasons. We argued the case with the Finance Minister, but like most doctrinaires he was fixed in his opinion, and insisted on its being made law. We then took the strong step of appealing to the whole Cabinet. The Prime Minister (Sir John Macdonald) was again in power, and a hearing was courteously conceded to us, a very rare favor. We stated our case; some four or five speaking, the most prominent being the General Manager of the Bank of Commerce, who had formerly been manager in New York, and could speak from practical experience. At the close of the interview the Premier desired us to put our views into writing, which was done, and we heard shortly after that the clause had been abandoned.

Thus for the second time, Sir John overruled his Finance Minister in a matter that concerned the banks. It was on this occasion that the further step was taken in the way of making bank circulation secure by the formation of Redemption Fund under the auspices of the Government to which all the banks contribute. I always had the impression that the making notes a first charge would render any further assurance unnecessary; and events have so proved it. The fund, however, was formed, and when its provisions came to be understood, it was found that under them the whole of the banks were practically guarantors of each other's notes. This was never intended by its promoters, but it is now the law, and under it we may safely assert that the bank circulation of Canada is far better secured than that of any circulation in the world.

Before the decennial period of 1901 was reached, some scandalous revelations took place with regard to the overissue of notes by a bank that had failed in Montreal. This circumstance gave rise to a good deal of discussion, and to suggestions with regard to giving the Government increased powers of supervision over the banks. Impracticable ideas were again ventilated and discussed. At length it was determined that as none were so much interested in the matter as the banks themselves

(under the provisions of the bank redemption fund), the whole regulation of the issue and cancellation of notes should be committed to the Bankers' Association, which had been already incorporated. The responsibility of seeing that the provisions of the law are carried out was placed upon them, and they speedily organized machinery for the purpose. This arrangement has worked well, and is as likely to be effective as any sort of supervision by Government could be, short of allowing no notes to be signed that have not been printed in a Government department and countersigned by Government officers. But to prevent deliberate schemes of fraud, amounting almost to forgery, if any bank directors should be mad enough to attempt it, is impossible.

The Association has done also very valuable work in the education of young bankers, and has published and is now carrying on a journal which an English banker, well qualified to judge, once pronounced to be more ably conducted than the Bankers' Magazine of London.

RETIREMENT FROM BANKING.

When the last year of my fourth engagement had transpired, I had passed the boundary of three score years and ten. Yet, though still in vigorous health, I was anxious that an arrangement should be made so that the wide and diversified interests of the bank should not suffer by any failure of bodily or mental vigor which would inevitably accompany advancing years. The board acquiesced and generously furnished me with a co-adjutor of experience, who took upon him a large part of the burden of active management, until the time came at length for me finally to part with the cares and conflicts of banking, and to retire with an ample allowance into the comparative rest of private life.

I thus close these recollections, trusting that they, or some of them, may prove to be in the nature of way-marks to guide, or beacons to warn, for those who are still bearing the burden and heat of the day in the banking sphere of this continent.

GEORGE HAGUE.

MONTREAL, October, 1908.



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